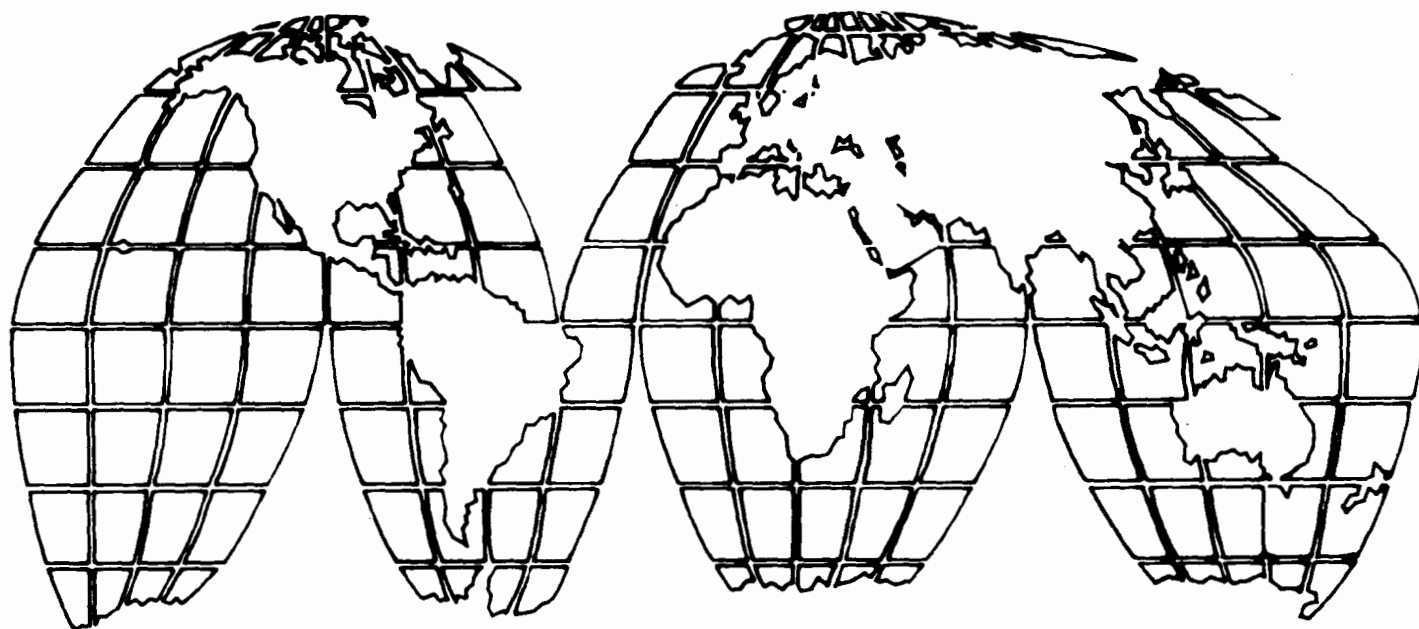


A.I.D. Program Evaluation Discussion Paper No. 14

Private Sector: Ideas and Opportunities

A Review of Basic Concepts and Selected Experience

BEST AVAILABLE



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PRIVATE SECTOR: IDEAS AND OPPORTUNITIES
A Review of Basic Concepts and Selected Experience

A.I.D. Program Evaluation Discussion Paper No. 14

by

Molly Hageboeck
Mary Beth Allen

Office of Evaluation
Bureau for Program and Policy Coordination

Agency for International Development

June 1982

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PREFACE

Early in his administration, President Reagan emphasized the need for the international development community to begin identifying ways in which private sector initiatives in and by developing countries could be fostered to increase the resource base and momentum of development. In the months since the Administration announced its intention to encourage the participation of the private sector in the development process, AID has initiated a number of responses to this chal-

Previous Page Blank AID's geographic bureaus and in its missions, is and specific projects, as well as host government policies, are being examined to determine the degree to which they engage the private sector and take advantage of what Administrator McPherson has called a natural complementarity between government and the private sector. In addition, AID has created a Private Enterprise Bureau, both as a symbol of the Agency's commitment to fostering private sector involvement in the development process and as a means of ensuring that new programs and policies are developed and implemented to stimulate private sector development investments and leverage private sector funds by efficiently applying relatively small amounts of public sector resources.

In September 1981, PPC's Office of Evaluation began an investigation of the Agency's experience with programs and projects that apply private sector approaches to development problems or in other ways attempt to set the stage for private sector initiatives in developing countries. Over the ensuing months, this research was expanded to include a more general review of the private sector role in the development process and an examination of private sector initiatives that have been undertaken without AID's involvement. This discussion paper

presents the results of our initial investigation. While the paper neither defines Agency policy nor provides definitive guidance concerning program and project options, it does seek to expand the discussion of approaches that might be taken to fostering private sector initiatives in the developing countries. The preliminary findings presented in this paper represent only the first step in the Office of Evaluation's examination of the private sector. During the spring and summer of 1982, a series of evaluative studies will be carried out that follow up on ideas presented here and in other Agency documents pertaining to this subject.

The discussion paper consists of three major sections. In the first of these, markets, which provide the framework for private enterprise initiatives, are examined as are the factors which can constrain the development of enterprise. In the second section, a variety of approaches or "modes" of fostering private sector initiatives are identified and experience with them is examined. The final section is concerned with the results of programs that foster private enterprise initiatives. In each of the sections, material from AID's documentary history as well as other sources of experience with private enterprise initiatives are used extensively to illustrate and expand on ideas presented in the text.

Several major themes run through the paper which are worth stating at the outset. The operating hypothesis which underlies much of the discussion is that market mechanisms, when they are allowed to operate freely, will provide incentives to which the private sector will respond. Woven through the text are examples of situations in which developing country governments have relaxed restrictive protectionist policies and found that the private sector did, in fact, respond. A second major theme that recurs throughout the text deals with the

costs AID should expect to incur as it attempts to foster private enterprise initiatives. This study consistently prefers approaches that take seriously the notion that AID can use very small amounts of public sector resources and be effective in leveraging private sector growth in the developing countries. In addition, such "low-cost" approaches frankly recognize the real constraints AID faces with respect to staff levels and skills as well as financial resources.

MARKETS AND THE GROWTH OF THE PRIVATE SECTOR

The idea of a market is central to any discussion of the private sector. The purpose of this section is to examine market processes and other key factors that can facilitate the growth of the private sector in the developing countries. The section is written from a private sector perspective -- the entrepreneur's perspective, rather than the perspective of a Previous Page Blank ment or formal economic theory. For some, the e a review of well known premises; for others, it will hopefully provide a quick introduction to factors that influence private enterprise.

A. THE ROLE OF THE MARKET IN PRIVATE ENTERPRISE

Markets are the framework in which private sector decisions are made. Unfortunately, the language in which markets are often discussed has become at once so sophisticated and so simplistic that the term market is today more of an abstraction than it needs to be. Rather than imagining supply and demand curves plotted under a range of assumptions, it may be simpler and more appropriate to imagine a marketplace, or perhaps a market town, and all the goods and services which flow through it from nearby areas as well as from distant points. By thinking partly, though not exclusively, in visual terms about what we mean by a market, we can more easily address the processes that are hypothesized to influence private sector growth and the degree to which marketplaces may be bounded, in a spatial sense or by other factors in their environment.

1. The Market Process

The process which dominates any marketplace is an exchange process, in which both the individual who can supply an item or service and the individual who wants to procure that item or service are participants. Without some agreement between a "seller" and a "buyer," no transaction can occur. Despite the obvious fact that business transactions must necessarily involve two parties, a good deal of the literature on business promotion, as distinct from economic theory, tends to concentrate on the concerns of the "seller" -- the entrepreneur's access to credit, the risks associated with doing business under volatile political conditions and the entrepreneur's options with respect to various technologies and other aspects of production. A lopsided concentration on the "seller" in the business transaction -- when it influences entrepreneurial decisions or the planning of a foreign assistance effort -- can quickly lead to failure:

Apparent consumer reluctance to buy refrigerated and frozen meat in the Near East and some Southeast Asian countries has negated investments in processing and transport facilities and blocked programs to expand income from livestock raising. Many of the officially sponsored programs to introduce nutritionally valuable foods based on oilseed and fish flour protein have foundered on the same rock of consumer resistance.

Planners seeing good technical prospects for a new production line may easily underestimate competition from alternatives even on the domestic markets. Assured of protection against imports, plans to develop substantial poultry industries in Nigeria and Dahomey still ran into marketing difficulties before attaining their targets because of the availability of relatively lower priced beef and fish. A tree fruit development in the

Kassala area of Sudan was eventually largely abandoned, unable to cover its transport costs in competition with other supplies on the Khartoum wholesale market.*

Stories like these emphasize the degree to which a conception of business that does not adequately consider both "buyers" and "sellers," in practical terms, tends to be misguided. They also emphasize the way in which individual decisions, rather than national plans, determine outcomes in the marketplace.

When thinking about private sector initiatives, host governments and donors who have become accustomed to working with public sector programs, in which decisionmaking is centralized or limited to a fixed number of actors, may perceive markets as being unpredictable or sense a "loss of control." Noting the difference between governmental decisionmaking and the decisionmaking process in the private sector, Alexander Cairncross has termed the market a "decentralizing agency."** By its nature, the private sector grows based on decisions made by individual entrepreneurs and individual buyers, acting locally and independently and, generally, for their own reasons. For the private sector entrepreneur, government policies and donor programs are not the only factors that must be considered in making a business decision, nor are they necessarily considered to be important factors. Even in the

*J.C. Abbott, "Marketing Issues in Agricultural Development Planning," in Markets and Marketing in Development Economies, edited by Reed Moyer and Stanley Hollander, Homewood, Illinois: Richard D. Irwin, Inc., 1968, p. 95.

**Alexander Cairncross, "The Market and the State," in The Market and the State: Essays in Honor of Adam Smith, edited by Thomas Wilson and Andrew S. Skinner, Oxford: The Clarendon Press, 1976, p. 126.

most conducive policy environment, entrepreneurs would not consciously elect to produce goods and services that their potential customers could not afford or did not want to buy.

The immediate feedback to the entrepreneur from the marketplace is the most powerful regulator of entrepreneurial behavior. When there are no buyers for a product, that product will quickly disappear from the marketplace. When there are buyers for a product or service, and several firms offer that product or service, the firm that is able to meet the buyers' needs at the lowest price will find encouragement to continue, while others will need to decide whether to find ways of lowering their prices or to close their business. Not every market is so open and competitive as to produce this type of feedback to entrepreneurs, but where markets are allowed to operate as the regulator of business behavior, the signals they provide will command entrepreneurial attention.

2. Market Size and Specialization

Many a business has been started without quite enough capital or quite enough training, but rarely do entrepreneurs knowingly venture forth without a "buyer" in mind. A study of the foreign investment decision process, which focused on the factors associated with investments in developing countries, put market size -- the number and location of "buyers" -- second only to the risk of a major political upheaval as an investment decision criterion. As this study reported, "it is generally believed, as one respondent put it, that 'we can produce anything. The real question is: Can we sell?'"* The

*Yair Aharoni, The Foreign Investment Decision Process, Cambridge: Harvard University Press, 1966, p. 100.

high priority attached to the question of market size by this U.S. businessman is accorded the same consideration by entrepreneurs in the developing countries. By and large, entrepreneurs simply don't enter into commerce where too few buyers exist to support their enterprise.

The size of a market and a firm's long term potential for maintaining a given sales level or increasing the number of buyers of a particular item or service are perhaps the primary considerations that govern decisions about business start-up and expansion. For any given product, the number of potential buyers in an immediate area as well as those who might be reached in more distant places must be considered, as must the number of firms already producing the same or similar products for essentially the same market and the minimum scale on which it makes sense to start or expand a particular type of enterprise.

For some types of business a relatively small market and a small scale of operation will suffice. The types of enterprises that can survive in very small markets identify themselves by their almost ubiquitous presence around the world. Thus, one always finds a cantina, a small pharmacy or general store, and where there is a road, sources of gasoline and an occasional small repair shop. The way in which the limited markets in these situations constrain enterprise was noted, and aptly described, over two centuries ago:

It is impossible that there should be a trade even as that of a nailer in the remote and inland parts of the Highlands of Scotland. Such a workman at the rate of a thousand nails a day, and three hundred working days in a year, will make three hundred thousand nails in a year. But in such a situation it would be impossible to dispose of one

thousand and, that is, of one day's work in the year.*

The central factor limiting the amount of enterprise and a division of labor which would encourage Adam Smith's nailer to open shop is a lack of effective demand for the product he can readily produce. In this case, the small size of the nailer's community and its relative isolation appear to be key constraints to enterprise. In other situations, buyer tastes and income, product quality and affordability (product price relative to buyer income and compared to buying habits and expectations) and other factors may limit the size of a market, even where the population is quite large. Under both of these conditions the would-be entrepreneur will tend to consider the possibility of expanding his market by making his goods available to customers in distant areas. For enterprises that can only survive by reaching customers in other areas, transportation systems play a key role in business decisions. When goods cannot move readily, and at reasonable rates, from their point of origin to buyers, and the number of buyers in an immediate area cannot support an industry, specialized firms cannot develop and thrive.

The way in which very small markets discourage enterprise is obvious when we observe the self-sufficient operations of families in isolated villages in the developing countries or recall that during the colonial period in America most households not only grew their own food but also engaged in a myriad of other tasks which, once towns grew up and transportation networks between them expanded, became separate and distinguishable enterprises. What may not be so obvious is

* Adam Smith, The Wealth of Nations, Reprinted: Chicago, Illinois: The University of Chicago Press, 1976, p. 22.

that, on a larger scale, the problems of small markets and isolation today defeat entrepreneurs who might otherwise set up production in Bamako or Potosi.

In the days of Adam Smith and in the early days of the United States, waterways were the primary vehicle for expanding market access. The Mississippi River was a long avenue for commerce and all around the world trade and seaports have been strong partners. Today, in most countries, roads serve the function that waterways and railroads served in other eras, wherever the cost of surface transport is such that its costs can be added to the price of a final product without making the cost of that product prohibitive to consumers. With minimal effort one can observe that the products on grocery shelves in any relatively well developed economy originate from a variety of domestic and foreign points. When transport networks have been developed and operate at costs which do not inhibit production, specialized products that require relatively large markets tend to become available. Under such circumstances, producers will locate wherever they find the cost of doing business acceptable and access to the supplies they need reasonable.

On a national scale, in a large country, specialization may take a regional form in which the production of particular items takes place close to the source of supplies needed for that production. In such situations, or in extractive industries, business success depends heavily on the existence of an adequate system for moving goods from place to place. In smaller countries the development of business may not take a regional form. In some of the smaller countries nearly all manufacturing and commerce will tend to center around the most densely populated and developed cities -- where transportation is already available and markets are already large enough to

sustain enterprise. When business develops where markets and transportation systems already exist, less developed parts of the country may not be full participants in the process, particularly when enterprise can function without drawing upon supplies from these areas or depending on buyers in remote areas to support their enterprise.

When a division of labor and specialized businesses begin to develop around markets and in locations where it is reasonably easy to reach domestic buyers or to export goods to other countries, the differences in the way people live in different parts of a country can be very dramatic. At a time when St. Louis and Chicago were busy metropolitan areas where people bought rather than produced most of the goods and services they needed, homesteads in the Dakotas or Southern Colorado still resembled colonial New England in the degree to which families were the producers of almost all they consumed. In the developing countries, these images are strong today. Cities like Abidjan and Bangkok contrast sharply with the more rural parts of their nations. While these contrasts are not necessarily desirable, they do illustrate the patterns that have been recorded elsewhere, and described as "dual economies."

In some situations, the demands of city consumers and the ease with which they can be reached, has tended to preoccupy entrepreneurs -- even when rural populations might have become active buyers of businesses' products. A story related by William Glade and Jon Udell concerning Peru suggests how activities in near-by markets combined with a lack of information about consumers in rural areas can operate to slow the process by which a fully developed domestic economy emerges:

When, for example, one of the earliest credit unions was established in 1955 in the impoverished town of Puno, there were many who expected it to fail for want of resources and interest. Its beginning, with 23 members and a capital of \$30 [U.S. currency], was not auspicious. Yet only six years later it had attracted over 3,000 members and a capital of \$400,000, the largest of any credit union in the country.

[Nevertheless], it appears that comparatively few [Peruvian] firms of the modern sector have ever made any systematic study of the actual and potential needs and buying preferences of the participants in either the traditional or the modern sector of the economy, particularly the former, to ascertain what products might be most fitting for the various conditions of life which prevail. Peruvian businessmen come from the coast and from social strata quite removed from the day-to-day living patterns of the majority of the population; it cannot be assumed that firsthand knowledge of market characteristics is common among those in charge of preparing marketing programs. Accordingly, there is little market research basis for either modifying existing products or developing new ones in order to render output more appropriate for the needs of consumers in the forgotten three-fourths of the nation.*

The process by which rural areas and commercial centers become integrated into an interdependent domestic economy is complex and it can be relatively slow. In the United States, over a century elapsed before this integration was relatively complete. It was many years after specialized industry had emerged with full force on the Eastern seaboard and in key Mid-Western cities that our transportation and communications

*William Glade and Jon G. Udell, "The Marketing Behavior of Peruvian Firms," in Markets and Marketing in Developing Economies, op. cit., p. 163-164.

infrastructure was at a point where rural consumers could rely on industries located elsewhere for things they needed and entrepreneurs could recognize business opportunities associated with serving rural populations and distribute products from a central point to every small town in America. Thus, while it may not be desirable to find sharp contrasts between cities and rural areas with respect to the degree of specialization of effort, involvement in the monetized economy and level of interdependence among people via the market exchange process, it is neither without precedent nor is it normally the final form that this relationship takes. Over time, more and more people tend to enter the market economy and as this occurs the differences between the country and city are lessened.

3. The Scale of Business

Communication and transportation networks that connect buyers and sellers are one of the factors that influence the growth of an enterprise, particularly in terms of its size, but they are not the only factors. Business growth from a size perspective is also a function of the number of businesses that are competing for a particular market and the scale on which enterprise makes economic sense.

In some kinds of enterprise, it is possible to operate effectively on a small scale indefinitely. In other enterprises, expansion over time as the number of buyers increases makes good business sense. While this latter type of enterprise can often operate at a range of sizes, the actual size of a particular firm will tend to be strongly influenced by the size of the market at a given time and the availability of a range of factors, including management skills, technology, capital, skilled labor, supplies and reasonably priced transportation

systems. High transportation costs, like other constraints, can limit business growth. Thus, for example, an IBRD study of Korea found quite a bit of change, over time, with respect to the size of firms as a function of transportation costs and the size of near-by markets:

As in 1968, locational and process influences were most important in determining small firms' predominance in manufacturing industry in Korea in 1975. In fact, industries in which locational factors are important accounted for nearly 60 percent of the workers and of the value-added in small scale industries in 1975. It appears that transfer costs for raw materials and products continue to be predominant reasons for small-plant operations, even in Korea in 1975 -- a relatively small country with fairly good transportation facilities. However, a comparison of industries...in 1968 and 1975 shows that a number of important industries...in 1968 were no longer dominated by small plants in 1975. For example, small plants' share of employment in coal briquettes was 80 percent in 1968 and 49 percent in 1975; in vegetable oils and fats, it was 56 percent in 1968 and 25 percent in 1975. Apparently, cities such as Seoul, Busan and Daegu permitted larger enterprises to emerge and reduced small establishments to a subordinate position.*

The growth of small firms into larger ones occurs partly as a function of market size and also as a function of competition and management skill. While it is possible for many small firms to share a stable number of buyers, one of these firms must do better than the others, in terms of the efficiency of its production and distribution, if it is to become larger when the number of buyers is not growing. In very small

*Sam P.S. Ho, Small-Scale Enterprises in Korea and Taiwan, World Bank Staff Working Paper No. 384, Washington: The World Bank, 1980, p. 45.

markets, such as those found in some African countries, or in large markets such as are common in Asia, it is possible to find that excessive competition among what are already a large number of firms can thwart growth in any one firm. At the same time this type of competition will benefit consumers, through efforts by firms to undercut their competitors' price or differentiate their product along quality lines. In other situations, where the number of buyers of a particular product or service is increasing, a number of firms can grow larger while still sharing the market, without necessarily increasing prices or lowering product quality.

While some of the growth of industry will result from changes in the size of markets and a resulting growth in either the size or number of firms that serve this market, other aspects of industry will grow by introducing new products, some of which can be produced only on a relatively large scale. Some types of production simply cost too much to start up and operate to exist under small market conditions. Major industries such as automobile manufacturing and steel making simply do not emerge when only a few customers can be identified. Only when a market of sufficient size exists, either domestically or in combination with foreign sales, will entrepreneurs consider this type of venture. Thus, in part, the transition of an economy to a mix of small, medium and large firms depends in part on earlier stages of market development, often through the rise and proliferation of many small industries. Conversely, the entry of a large industry into a particular location will itself stimulate the development of new businesses -- usually smaller firms that can provide major industry with the supplies and services it needs.

4. Participants in the Market Process

As the foregoing has suggested, a market economy is made up of "buyers" and "sellers" whose transactions, in principle, are moderated by the competitive forces inherent in the system. While the role of government is minimized in such a system, there are areas where government typically provides the context in which a market economy can flourish. Thus, for example, the body of commercial law that governs transactions in a market, the supply of money used in that market, and such standards and uniform measures as are needed tend to fall within the purview of government under the most open and competitive market conditions.

"Buyers" in the market system include not only individuals and households, but also every firm which must procure goods and services in order to function. "Sellers" covers a similarly broad class of market participants and includes not only firms and service industries, but also farms and individual workers whose labor supports enterprise. Within the broad category of firms, the market may include foreign as well as domestic entrepreneurs. Multinational corporations as well as foreign companies that operate as partners of local entrepreneurs may be market participants in some situations. In addition to a wide range of private entrepreneurs, governments may, in some countries, be market participants by virtue of their ownership and management of state enterprises. Even when governments are not engaged in manufacturing, their involvement in the market as a buyer of goods and services may have a major impact on local enterprises.

Beyond an anticipated government role in developing a system of laws and standards and government management of a nation's money supply, there are a range of ways in which governments,

at times, participate in the market economy. State ownership is one form of active participation that can be observed in a number of developing countries. Other types include policy actions which favor particular types of industries and the choice of production systems, the cost of credit, and tax incentives or disincentives which "buyers" and "sellers" must take into account. Government actions can influence and distort the natural forces at work in markets, encouraging both "buyers" and "sellers" to establish different priorities and make different decisions than they might otherwise have favored.

B. FACTORS THAT INFLUENCE PRIVATE ENTERPRISE DEVELOPMENT

As part of any analytical process designed to identify ways in which private sector initiatives can be fostered, the factors which can facilitate or constrain private enterprise need to be considered. In this section, a number of factors that can, on occasion, constrain private enterprise growth are examined, including government practices and policies, basic infrastructure, financial systems, the availability of management and other business skills, technology access and social and cultural traditions and practices.

1. Government Practices and Policies

The political system of a nation, in which a basic view of the private sector is often incorporated, as well as its specific policies with respect to private enterprise, exerts a powerful influence on the manner in which private enterprise operates and the degree to which market mechanisms regulate the growth of enterprise.

a. Political Systems and Practices

General notions about markets and ways of doing business remain simply general notions until the nature of a specific country is considered. In the developing countries a wide range of political and economic systems exists. The United Nations, among others, has upon occasion attempted to classify the political systems and types of markets that prevail in the developing countries; such taxonomies tend to cluster countries according to the degree to which the economy is regulated by market forces. Without examining such typologies closely, it is clear that differences in the way private ownership is perceived can affect business development, as can information about government practices with respect to the nationalization of existing industries.

Where governments seek to control the market by owning and operating a nation's industries there may be very little room for private sector activity. However, each case must be examined separately since there can be important differences between countries. In some countries the government may be the only owner and prices may be set by fiat; in other, similar situations, state-owned enterprises may be expected to operate in a very business-like manner, keeping costs down and prices competitive with foreign manufacturers. In still other situations, state-owned enterprises may have to compete with private enterprise on the domestic market. While governmental philosophy is a general indicator of the types of actions that might be taken, there are times when a very pragmatic view can prevail. One of the more dramatic examples of this was made by William Simon in his book, A Time For Truth, which focused in part on the Soviet Union:

Western capitalists, who knew nothing about ideological venom but everything about production for profit, lept to the Russian bait. Lenin offered them generous "concessions" in exchange for the rapid industrialization of Russia....In the thirties our businessmen shipped and installed replicas of complex American production centers to the Soviet Union, where they were assembled like gigantic do-it-yourself kits.*

In a comparison of the policies of two socialist countries in Africa in the late 1960s, Elliot J. Berg noted important differences in the way in which these politically similar regimes approached the issue of the private sector's role in marketing -- while Guinea proceeded to quickly nationalize marketing functions, Tanzania proceeded more cautiously, leaving a good deal of the responsibility in this area to the private sector, at least initially.**

The stability of government practices with respect to the private sector is almost as important to entrepreneurs as the basic views a government holds on this subject. Thus, a situation which limits private sector action, but is predictable, may well be preferred to fairly open situations that could, at any time, be reversed by ad hoc decisions to nationalize one or another industry. On occasion, publications such as Fortune publish what they call "risk assessments" for various parts of the globe as a service to those readers who are engaged in business overseas. While these articles tend to rank highly volatile situations as "high risk," other publications,

* William E. Simon, A Time For Truth, New York: Berkely Books, 1978, p. 30.

** Elliot J. Berg, "Socialist Ideology and Marketing Policy in Africa," in Markets and Marketing in Developing Countries, op. cit.

such as a January 1973 article in the Harvard Business Review, entitled "Doing Business with Latin Nationalists," have suggested that, despite the record of expropriation and forced departures of U.S. interests in Latin America, such countries still offered ample opportunities for U.S. business. Using the case of Peru, the article discussed the successful cases of Chrysler, Sears and Marcona Mining. Although the environment in Peru and the fate of these particular ventures may not look the same as they did at the time the article was written, it is not clear that the counterintuitive hypothesis concerning business development under "high risk" conditions can be totally discarded on the basis of existing evidence.

Other materials, some of which come from AID's own experience, raise further questions about the degree to which politics and policies are the major determinant of private sector success. Two quotations from AID documents concerning Afghanistan make the point that even in the context of a particular country we may not have a full or clear understanding of the role of government in private sector ventures.

The first document in this set asserts that government policies had a strong negative effect on private sector initiatives:

Assistance to the private sector in LDC's has chances of obtaining results only if the "investment climate" is right, i.e., if government policies at least permit its development, if a legal framework exists and if there is some indigenous experience with managing private ventures (other than small trade and commercial undertakings). Afghanistan is the prime example of where most of these preconditions did not exist and

where nothing we tried in this area succeeded.*

A counterpoint to this assertion is provided by a special evaluation report and in the contractor's final report on Project 3060116: Industrial Development, USAID/Afghanistan:

The program's macro-economic impact is modest to date. It has created an industrial output of \$7 million a year with a corresponding 30% increase in industrial employment; approximately 600 new jobs have been created. The favorable impact on the Afghan balance of payments, both in terms of import substitution and export promotion has been considerable. Because of the project's noticeable effect on urban employment and income distribution, the project is slowly but surely changing certain values in the traditional society. Furthermore, because of its relatively heavy concentration on the processing of agricultural raw materials, it is increasing rural incomes. The Mission feels that the program's cost-benefit ratio has been and continues to be quite high.**

Of paramount importance were a two year effort undertaken by one team member to modify the customs tariff to make it more favorable to domestic industries and the drafting of detailed investment regulations. Another major effort was the initiation of extensive agri-business research aimed at developing a policy encouraging agribusiness development. The team was heavily involved in the creation of the IDBA. Also, one team member's work as chief advisor on petroleum matters attracted private foreign investment in the exploration of oil in the southern part of the country. Overall, the investment

* Memorandum to AA/PRE, June 29, 1981, "Inventory of AID Private Sector Projects." (Emphasis added.)

** Special evaluation report, Project 3060116, found through ST/DIU, 11/15/72.

program has been successful. About 100 industrial establishments are operating with a total investment of approximately AF 1,200,000 (currently \$20 million).*

While the very different assessments provided by the quotations above tell us very little about the actual relationship between government policies and private sector success, they say quite a bit about our ability to understand fully such interactions and the way in which our perceptions may change over time.

b. Policy Interventions and the Market Process

In addition to the general view a government takes of the private sector, government participation in the market through ownership of enterprise and the general framework provided by the legal structure in which business transactions take place, there are a number of ways in which governments, through specific policies and programs, can intervene in the market process. The policy instruments available to government are numerous and they act in a variety of ways to influence market decisions. Thus, for example, tax policy may act in ways that influence the amount of market activity, while tariffs may have more influence on the kinds of businesses that develop. Controls on prices, interest rates, wages and exchange rates represent additional ways in which government policies and programs can operate to influence entrepreneurial and consumer decisions.

Most governments have, at some point in time, used one or more of these policy elements to influence market processes. In

* Contractor final report, Project 3060116, found through ST/DIU, 9/1/74.

virtually all countries, the effect of policy decisions on the development of private enterprise will be a function of the degree of government intervention and the choices that intervention encourages. The motives for such intervention have stayed relatively constant over time. Thus, Adam Smith's discussion of restraints on the importation of foreign goods, cites and rebuts arguments that developing countries use today to justify policy decisions in this area. Harry Johnson, writing in 1970 -- and pointing to a dearth of literature on the private sector in developing economies which persists today -- suggested that there "seems to be in human societies a set of social and psychological factors favoring intervention in the market." Among these he counted:

...the impatience of idealists and would-be reformers with the working of the market and their desire to take direct action to improve things, according to their criteria of improvement...[a tendency to] confuse opposition to unattractive features of the free enterprise system which express themselves through the market, such as inequality of income and wealth, with opposition to the market as a mechanism of organization....

...a positive belief in the desirability of Government intervention in the market and a faith in the disinterestedness and effectiveness of such intervention. Belief in the desirability of Government intervention in the western world is associated with the spread of socialist ideas and in its modern form can be traced back to Benthamite utilitarianism; elsewhere, it can probably be associated with the nature of the state as the dispenser of justice in primitive economies. Belief in the efficiency and disinterestedness of Governmental intervention is associated with the growth of the modern career civil service, with its standards of incorruptibility, particularly in Britain and countries influenced by Britain...[the] characteristics of the civil services are

important in considering the uses and limitations of control methods in economic development....

...the character of modern economics itself...strongly influenced by the theoretical revolutions of the 1930s, which were inimical to competition and the market.... [B]oth the theory of monopolistic competition and the new welfare economics have been excessively concerned with the efficiency of market mechanisms, criticisms formulated from a static viewpoint not obviously relevant to growth problems.*

In considering the specific policy choices that developing country governments have made to intervene in the market process, Bela Balassa, among others, has pointed out that governments tend to maintain their policies well beyond the point where they are producing positive effects. The particular area where this point has been made most clearly is with respect to the protection of domestic industry -- which some argue may need to be protected when it is first developed. Balassa, in his book on policy reform in the developing countries reviews the effects of such policies:

After the Second World War, a number of developing countries adopted a strategy of import-substituting industrialization behind high protective barriers. Apart from protection in the form of tariffs and import restrictions, large-scale industry commonly benefited from the availability of low-cost credit and the underpricing of public utilities.

* Harry G. Johnson, "Is There A Role for Market Forces in the Development of Developing Countries?", in Economic Development: Challenge and Promise, edited by Stephen Spiegelglas and Charles J. Welsh, Englewood Cliffs, New Jersey: Prentice-Hall, Inc., 1970, pp. 32-33.

The measures applied contributed to the expansion of manufacturing industry but often at a considerable cost to the national economy in the form of inefficiencies in the allocation of economic resources, including new investments....

Employment generally suffered as a result since the policies applied hindered resource allocation according to comparative advantage, which lies in labor-intensive activities in most developing countries....

The employment effects of the policies applied had unfavorable repercussions for income distribution. High profit margins and income transfer from agriculture to the manufacturing sector associated with the application of the described measures, too, had adverse income distributional implications in most of the countries concerned. The same conclusion applies to credit rationing that tended to favor large-scale industry as against small-scale firms, informal urban activities and agriculture.*

Balassa's conclusions in 1977 were all but predicted by Adam Smith. In his discussion of protectionist policies Smith noted that:

By restraining, either by high duties, or by absolute prohibitions, the importation of such goods from foreign countries as can be produced at home, the monopoly of the home market is more or less secured to the domestic industry employed in producing them....

That this monopoly of the home-market frequently gives great encouragement to that particular species of industry which enjoys it, and frequently turns toward that employment a greater share of both the labor and stock of the society than would otherwise

* Bela Balassa, Policy Reform in Developing Countries Oxford: Pergamon Press, 1977, pp.7-8.

have gone to it, cannot be doubted. But whether it tends either to increase the general industry of the society, or to give it the most advantageous direction, is not, perhaps, altogether so evident....

The general industry of the society never can exceed what the capital of the society can employ....No regulation of commerce can increase the quantity of industry in any society beyond what its capital can maintain. It can only divert a part of it into a direction into which it might not have otherwise gone; and it is by no means certain that this artificial direction is likely to be more advantageous to the society than into which it would have gone of its own accord....

By means of such regulations, indeed, a particular manufacture may sometimes be acquired sooner than it could have been otherwise, and after a certain time may be made at home as cheap or cheaper than in the foreign country. But though the industry of the society may thus be carried with advantage into a particular channel sooner than it could have been otherwise; it will by no means follow that the sum total, either of its industry, or of its revenue, can ever be augmented by any such regulation.*

Of the other end of the spectrum, export promotion, Smith also comments, noting that most approaches that subsidize the development and sale abroad of particular goods will also tend to distort the market, drawing both capital and labor to their production and away from whatever use they might have found were no export subsidies present in the situation. On this topic, Balassa takes a somewhat similar position, noting that what may in the end make sense is the selection of a method for encouraging exports which puts export industries at an advantage in international markets while, from a domestic

* Smith, op. cit., 474-479.

standpoint, treats them in a manner that does not give them an advantage over domestically oriented industry in the competition for the country's internal resources. Using different terminology, fitting the tenor and conditions of their times, Smith and Balassa seem to meet on the idea that as long as internal markets are not distorted, e.g., through the subsidization of exports, there isn't any real problem in trying to get the edge on a foreign competitor -- except, of course, for the foreign competitor.

Efforts along these lines, involving a movement away from protectionist policies and toward a more open competition for resources on the domestic market together with export facilitation schemes, have been tried by some developing countries such as Korea and Mexico. From case study material developed by Balassa and others such as Anne O. Krueger, it is clear that the developing countries face difficult choices as they walk a veritable tightrope between protectionist policies, exchange rate management and options which open up their economies to domestic and foreign competition.*

Domestically, controls on the price of various products as well as policies regarding wages and taxes can also have dramatic effects on the development of the private sector. As the stories related in this section have tried to suggest, the policy framework in which private sector initiatives are undertaken tends to be complex. Discussions of policy changes need to consider, in some detail, the effects of a whole range of existing policies on "seller" and "buyer" behavior. In addition, efforts to liberalize policies so as to stimulate

* Anne O. Krueger, Liberalization Attempts and Consequences, Cambridge, Massachusetts: Ballinger Publishing Company, 1978.

private sector initiatives should be informed by experiences documented elsewhere.*

2. Infrastructure

The isolation of parts of countries, as well as the isolation of countries from their neighbors, is one of the factors that can limit the development of specialized businesses which must have a reasonable size market if they are to succeed. Thus, AID's FY83 CDSS for Mali notes Bamako's isolation from the rest of West Africa, as well as domestic marketing difficulties, as a constraint on business development; Kenya's CDSS recounts the difficulties of reaching farmers with the basic farm supplies that would help them to increase their production and income.

Even when roads exist they do not lead to market development and regional industrial specialization unless the cost of transporting goods over roads and other transportation networks is reasonable. In situations where too few carriers exist to move products from point to point, or where they charge rates that would make the price of products unacceptable to final consumers, it is as if there was no road at all from a business perspective.

In the developing countries, we are often sensitive to the problems of transport systems from the perspective of the small farmer. In one evaluation of a small farmer project in Latin America, AID's evaluator found that the "middlemen," the truckers, were effectively securing for themselves a sizable

*Thomas K. Morrison and Luis Arreaga-Rodas, "Economic Liberalization in Developing Countries: Some Lessons from Three Case Studies -- Sri Lanka, Egypt and Sudan," AID Discussion Paper No. 40, October 1981.

portion of the final price paid for agricultural goods. The story was recognized by other Missions. Yet the problem here for the small farmer or for the entrepreneur is not really whether a trucker makes money. Truckers, like every other element of the market chain, will demand a return for their services. The real problem arises when there are too few truckers or when truckers are able to set their prices as a monopoly might.

The infrastructure issue was raised in an October 1981 draft discussion paper prepared by the Africa Bureau's Office of Regional Affairs, entitled The Development of African Enterprise. While the problems on the African continent that arise because of a lack of such basics as major roads that connect parts of countries or one country to another are well known, the issue was raised with the caveat that direct action to address the infrastructure constraints in Africa "would probably be outside the province" of projects designed to foster private enterprise. Certainly AID would need to review its overall program for Africa and its resources in order to address the infrastructure problems in this area. On the other hand, the private sector in this part of the world may simply not flourish until some of these issues have been addressed.

In addition to transportation systems -- with a sufficiency of low cost carrier services -- and basic communications infrastructure, private enterprise also requires access to power, water and other types of infrastructure. Over the years, AID project designs, and more recently its "Impact Evaluations," have recognized the need for these basic facilities. Recent AID evaluations of rural electrification have suggested that while electrification alone will not yield development, it is one of the resources that tends to be present in growing

market towns. In other project areas, such as a major agricultural program for Northeast Brazil, AID has recognized the relationship between enterprise and infrastructure components such as "market news" services. While AID may not have the development assistance funds for major infrastructure development efforts as part of its attempt to encourage private sector initiatives, infrastructure is clearly one area that needs to be examined when considering what the possibilities are for enterprise development.

3. Developing Country Financial Systems and the Availability of Capital

As the term "financial system" is used here, it refers more directly to the financial organizations within a country and their interrelationships than to the conditions of the economy or economic policy. Within most countries there is some structural framework of governmental and commercial banks, private finance organizations which carry out some of the investment transactions in the country, and moneylenders or their equivalent. The degree of development of such systems can have an influence on private sector growth. Where such financial structures are well developed, there tend to be specialized sources of investment and working capital that deal with various segments of the economy, e.g., farmers banks, banks that deal primarily with the major industrial firms and banks that specialize in credit arrangements for small entrepreneurs. While differentiated financial institutions -- which facilitate a competition for capital resources among enterprises of similar categories and sizes -- exist in some parts of the world, they take a primitive form elsewhere. In describing the market structure of West Africa, Miracle points out that in the 1960s only a portion of the would-be

entrepreneurs had access to the formal financial institutions in that part of the world -- a situation which has not changed significantly enough to make his observations irrelevant:

Most rural West Africans make no use of banks or of other formal savings and lending institutions. Governmental credit agencies have very little credit to extend, and nongovernmental banks are generally not interested in making loans to Africans because they rarely have acceptable collateral, and are considered extremely high risk borrowers.

The main sources of capital for Africans are moneylenders, which in some communities may be non-African as well as African, commodity buyers, and friends or relatives.*

In the majority of the literature that discusses the needs of entrepreneurs for capital, a great deal of attention is paid to the need for investment capital. At the same time, detailed studies of the actual sources of capital, particularly investment capital, show that a large number of developing country enterprises have started without the assistance of financial institutions; on the other hand, these studies suggest that business needs for working capital -- to cover monthly "cash flow" problems -- does tend to come from lending institutions. In commenting on the requirements for and use of loans for business start-up and expansion, Georges Nihan and Robert Jourdain found that:

Contrary to the widely held view that the remedy for the ills of the informal sector would be an injection of fresh capital by the State, we found that only 40.5 percent of the

* Marvin P. Miracle, "Market Structure in Commodity Trade and Capital Accumulation in West Africa," in Markets and Marketing in Developing Countries, op. cit., p. 212.

entrepreneurs in Nouakchott complained about the shortage of capital and the high cost of equipment. Furthermore, 50 percent of these were in the category of undertakings that already possessed a reasonable level of assets....

Another surprising feature is the fact that only 3.8 percent of the entrepreneurs started their business with the aid of a loan (from banks, 1.5 percent; from small moneylenders, 2.3 percent), while for 84.7 percent of them their starting capital was derived from personal savings and for 1.5 percent it was provided by their families. The proportions are more or less the same for the source of money used to expand the undertaking. This is confirmed by the fact that, after deducting the entrepreneur's personal weekly profit and his outlay for housekeeping and assistance to the "extended family," 78.7 percent of the entrepreneurs still have a balance in hand with which to effect additional investments.*

Other countries' studies provide similar data. In Sierra Leone, for example, a Michigan State team found that the primary source of initial investment capital for firms of varying sizes was savings; the main source of funds for expansion was found to be reinvested profit.** In the Michigan State study of Haiti, the distinction between investment capital and working capital was made even more clearly:

Of the entrepreneurs who borrowed money last year, 87 percent used the borrowed funds to purchase raw materials, a short-term

* Georges Nihan and Robert Jourdain, "The Modern Informal Sector in Nouakchott," *International Labor Review*, Volume 117, No. 8, November-December 1978, pp. 716-717.

** Carl Liedhom and Enyinna Chuta, "The Economics of Rural and Urban Small Scale Industries in Sierra Leone," *African Rural Economy Paper No. 14*, Michigan State University, 1976, p. 36.

expenditure of working capital. Only 13 percent of those who borrowed spent the funds on fixed capital goods such as machinery and equipment. Working capital is clearly an important problem; when entrepreneurs had to go outside of their business for financial support, the support they received was in the form of short-term working capital.*

Working capital needs, which are quite different from investment capital needs, tend to be overlooked in the planning of private sector support programs. In thinking about the financial needs of firms, large and small, it is useful to have some notion of the patterns these needs take. Figure 1 provides one way of thinking about the variations in capital needs that may exist in a developing country situation.

4. Business Experience and Skills

A number of studies undertaken over the years have suggested that the entrepreneurs in the developing countries tend to acquire their business skills through associations with enterprise. Thus, young people who work in enterprise often learn enough to go out and start their own businesses. Often their original exposure comes through an apprenticeship program. Similarly, comparative studies in Greece, the Philippines, Pakistan and Turkey demonstrated that many industrial entrepreneurs had prior experience as merchants.**

* Steve Haggblade, Jacques Defay and Bob Pitman, "Small Manufacturing and Repair Enterprises in Haiti: Survey Results," Michigan State University Rural Development Series, Working Paper No. 4, 1979, p. 58.

** Alec P. Alexander, "Merchants and the Recruitment of Industrialists," in Markets and Marketing in Developing Economies, op. cit., p. 190.

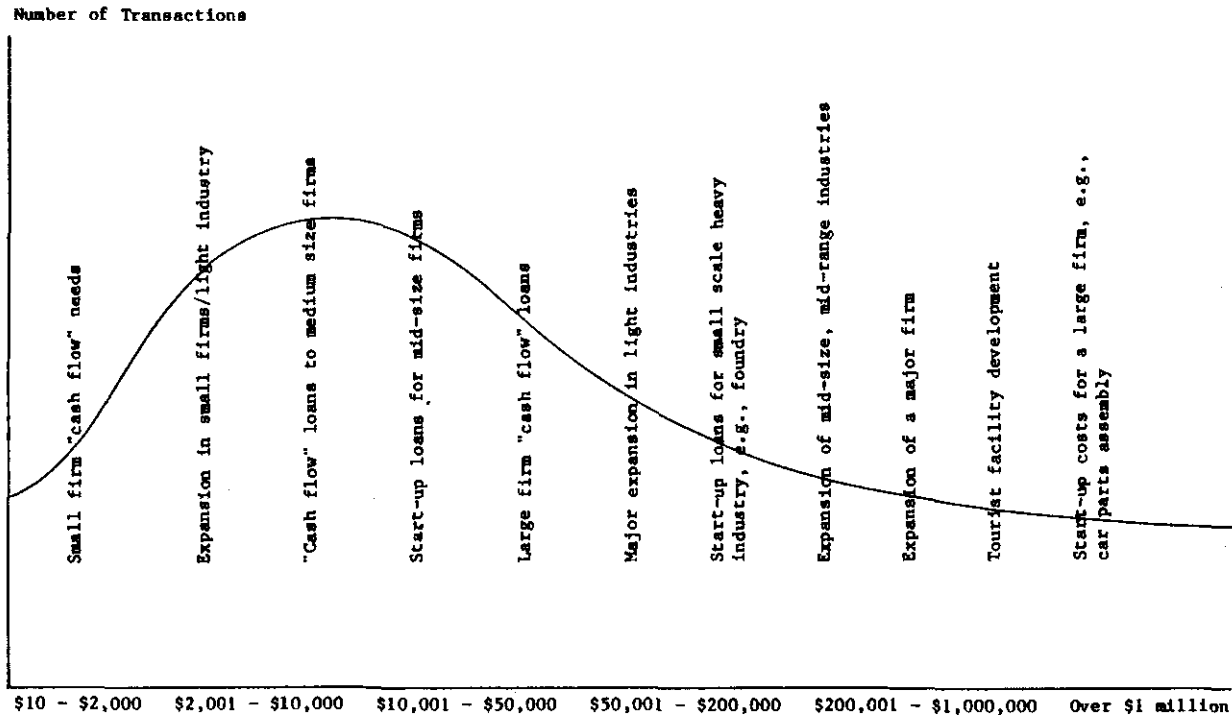


Figure 1. Authors' Guesstimate of the Distribution of Loan Demand for Investment and "Cash Flow" Management in Relatively Underdeveloped Economies

While this type of progression provides some of the exposure to business skills that entrepreneurs need, the numbers that receive such training are few relative to the potential scale of the private sector in many countries. Management training per se in such fundamentals as accounting is often difficult to acquire, particularly after one is out of school and in business. The Africa Bureau's draft paper on the private sector has identified the "lack of entrepreneurial talent and managerial skills" as "one of the most important constraints

on the development of African economies." An allied problem, "the [scarcity] of technical skills needed for the efficient provision of a quality, competitive product or service" has also been identified as a constraint on the continent. The technical skills to which the Bureau refers are often simple skills such as "typing, welding, carpentry, mechanics, electrical work, etc."*

It is worth noting that the area of management and related business skills is one that entrepreneurs themselves identify as a critical problem. The Nihan and Jourdain study of Mauritania's entrepreneurs showed management and related skills to be a constraint that entrepreneur's ranked ahead of access to capital in importance. A series of AID-funded studies of small enterprises, as well as small enterprise project evaluations, have tended to confirm the importance of management and skill training as a constraint on private enterprise development, though other studies do not necessarily rank the lack of these skills as a higher priority than access to credit.

5. Technology Access and Application

The technological gap between many developing country enterprises and the state-of-the-art is partially a function of access and partly a function of the capacity of the developing countries to absorb and apply new technologies.**

*"The Development of African Private Enterprise: Draft Discussion Paper," AID Office of Regional Affairs, Bureau for Africa, October 1981, p.7.

**The issues in the area of technology access and transfer are complex. While it is important to note the relationship between technology transfer and private sector growth, no effort is made here to fully address this topic.

The access issue itself has two important dimensions. First, there is the question of whether those with technological knowledge will make it available. In some domains, the newest technologies are often readily available. Agricultural technologies, for example, and other technologies that are widely and quite visibly applied are demonstrably accessible. Other technologies, particularly production technologies which give firms an edge over their competitors and which can be kept secret, may not be available except through joint ventures and other arrangements that keep the technical secrets under company control. The second dimension of access has to do with incentives to shift toward newer and more efficient technologies. Firms which compete in markets and with products where the advantages of new technologies are either not well understood or are perceived to cost more than they will return in a reasonable time may not be motivated to change. Low price policies in certain areas, notably agriculture in Africa, have been found to inhibit technological improvements in just this manner.*

A second element of the technological constraint, the capacity to absorb and adopt new technologies, relates closely to the lack of managerial and technical skills in the developing countries. Harvey Wallender, in a five-country study of technology transfer, identified managers' inabilities to identify when technologies should be applied as a key factor limiting technological improvements in developing country enterprises. In looking beyond his study findings, Wallender indicated that while past programs have not tended to consider the managerial

* Henry L. Miles, "Obstacles to Transferring Technology to the African Smallholder," Office of Evaluation, Bureau for Africa, November 1981, p.5.

capacity and processes in developing country firms, new projects could improve upon this record:

What is needed are programs which take into account the important role of the manager in preparing the firm to receive and utilize technology, and which thereby contribute to strengthening effective technological infrastructures within developing countries.*

6. Cultural and Social Traditions and Practices

Culture, like politics, is a factor that can be intimately linked with the development of a business environment in a country. In some nations, particular sub-cultures dominate enterprise, either with the support of the rest of the nation or somewhat to its displeasure. Cultural minorities that succeed in business are at times politically unpopular, sometimes to the point where a nation will act against its current economic interests in order to shift toward its cultural majority. The experience of cultural minorities in particular nations, at various points in history, has been difficult indeed. The smaller the business sector, the more noticeable such minorities may be. Thus, one of the more positive approaches to such difficult situations may involve the overall expansion of enterprise and a gradual reduction of the perceived "problem," not through dramatic means, but through a reduction of the share of enterprise associated with cultural minorities. In a full and vigorous economy it is likely that

similar, the efforts in African countries to gradually replace and complement expatriates holding civil service positions have over time reduced strong initial concerns about the strength of individuals and groups who were not clearly members of the dominant group within a nation with regard to this segment of the economy.

Even in countries where the issue of cultural minorities need not be considered, other cultural factors can constrain the development of the private sector. Often development assistance programs make assumptions about human behavior and change that prove to be wrong. Donor experience, including AID's, has indicated that on-the-ground analysis of this type of assumption is often required. Thus, for example, recent studies of the nature of livestock production in Africa have demonstrated that poor project performance in the past can be attributed, at least in part, to a Western misunderstanding of the ways in which Africans view livestock. Our expectations concerning the economic value of animals has at times run head-on into African interest in ownership, per se, and the milk these animals provide.*

Social and cultural traditions and practices, which stem from differences in history and values, take a variety of shapes. However, these differences will not necessarily determine the degree of market growth. Cultures that are radically different in many ways, e.g., the United States and Japan, can both yield vital private enterprises. Personalized concepts of business, such as those incorporated in the Japanese idea of a

* AID Program Evaluation Discussion Paper, No. 6, "The Sociology of Pastoralism and African Livestock Projects," Michael M. Horowitz, May 1979, and AID Program Evaluation Report, No. 4, "The Workshop on Pastoralism and African Livestock Development," the Institute for Development Anthropology, May 1980.

firm, can be extremely successful, though they are quite different from western notions of firms and their management. The draft discussion paper on private enterprise prepared by the Africa Bureau indicates that a number of known factors of social and cultural origin can effect the growth of business and markets on that continent. At the same time, some of the values found in Africa, such as strong family ties and expectations concerning the support of extended families, are also to be found in strong private sector economies in Asia.

A realistic understanding of the social and cultural factors that operate in a specific business environment is an important key to deciding what types of interventions will yield positive market results. To some extent it may be that countries which differ in terms of what we might call their overall "stage" of development may respond to different types of private sector assistance. Yet at the same time notions like "stage" of development should not be applied indiscriminately.

The issue of cultural misperceptions will be important for private sector ventures that are mounted to serve the domestic economies of the developing countries, as they have been in other types of initiatives assisted by foreign donors. In addition, cultural misperceptions can play a role in the failure or success of export industries. When local businessmen seek to enter foreign markets they face all of the possibilities for cultural misunderstanding in reverse. If export products are not adequately pretested in foreign markets they can fail in the marketplace; different cultures have different buying patterns and respond differently to the same product in some cases.

MODES OF FOSTERING PRIVATE ENTERPRISE INITIATIVES

The purpose of this section is to examine the effectiveness, and to the degree possible, the costs of specific approaches for stimulating private enterprise initiatives that have been used in the past by AID, by other donor organizations and, at times, by private sector companies. The section moves away from a general discussion of the nature of markets and experience with the market process and examines more closely specific types or "modes" of assistance to the private sector. The approaches for fostering private enterprise initiatives in the developing countries have tended to take two broad forms: policy reform efforts and specific programs and projects aimed at directly assisting private enterprise. In this section, both of these broad forms of assistance are considered.

A. POLICY ANALYSIS AND POLICY REFORM

From time to time, AID has worked with developing countries as they sought to establish policies that would stimulate private enterprise and promote economic growth. By their nature, policy analysis and policy reform efforts differ from the programs and projects that dominate AID's portfolio. Often such efforts are undertaken in parallel to program and project development and implementation. Yet at times the very different character of these efforts makes them somewhat invisible to an observer of AID's documentary record; exercises that generate a significant historical record tend to be associated more closely with activities that transfer funds than with those which, in good part, rely on discussion, analysis and persuasion.

As the preceding section of this paper suggested, policy analysis and reform efforts can focus on one or a number of policies of host governments. In one situation, tariffs or exchange rates might be the only policy under examination and discussion. In other situations, a much broader range of policies might be involved. Even when AID documents do indicate that the economic policies of host governments play a central role in the Agency's strategy and program, the specific policies under consideration may not be identified, as was the case in one of the few explicit discussions located in AID project description documents:

This project will continue to assist the Government of Korea in formulating and implementing economic policies. Such policies should be consistent with an increasing reliance on market forces and private investment rather than government controls and investment.*

The sentiment here is timely, and the case of Korea is well-known in AID and relatively well documented. As the records of the Korea case show, the policy changes assisted by such projects were quite effective. The nature of the way in which policy change was promoted in Korea is, however, seen in different ways by different people. For some, the analytic work dominated; for others, the opportunities key officials in the Korean government had to talk things over informally, on a regular basis, with the American Ambassador, the AID Mission Director and others played a central role.

While Korea and Taiwan are countries where policy objectives and analyses were explicit elements of the AID program, AID

*Agency for International Development, Congressional Presentation, FY70, p. 36.

staff have also been involved in this type of effort elsewhere, though perhaps in a less explicit way. At times these other efforts have taken the form of advisory assistance, often informal in its character. In other countries, policy reform objectives have been incorporated into programs and projects via the mechanism of "conditions precedent" to an action involving the transfer of funds or the provision of technical assistance.

The detailed nature of policy reform efforts in the developing countries, and their effects, are becoming somewhat easier to understand as documents that discuss such efforts begin to appear. Three studies completed quite recently discuss policy reforms, in a variety of countries, in a more analytic manner than is characteristic of earlier treatises. Through these documents a variety of "lessons" have become available which can provide guidance to those involved in policy analysis and reform efforts today.

As indicated earlier, Bela Balassa's study of policy reform in the developing countries concentrated on the effects of import-substitution policies and on changes which took place when governments moved away from protectionist policies once an industrial base had been developed. The negative effects of import-substitution documented by Balassa included inefficiencies in the allocation of economic resources, undesirable employment effects and related effects on income distribution, and, at times, disappointing balance of payments effects.*

A second study, which concentrates on exchange rate policies, is the ten volume study on foreign trade and economic development undertaken by the National Bureau of Economic Research,

* Balassa, op. cit.

under AID sponsorship. This complex study makes a number of points that contribute to an understanding of the way in which liberalization efforts do and do not bring about anticipated results. In her synthesis volume, Anne Krueger points out that what appear to be important changes are not always what they seem. On the particular subject of her concern, exchange rates, she found that nominal changes had to be looked at carefully and generally in terms of their net effect on the amount that actually had to be paid for foreign exchange. At times, she reports, this type of close observation reveals that very little change has really occurred -- and the lack of economic response to this type of non-change is understandable. While her finding in this area does not necessarily suggest direct analogs in other areas, it certainly should encourage us to carefully evaluate the real changes that appear to be associated with alterations in pricing policies, tax rates, interest rates and wages, especially when these occur in parallel, creating the opportunity for specific effects to offset each other.

In commenting on the Krueger volume, Robert Lipsey reminds us of the role that expectations play in shaping economic results:*

Perhaps the most important conclusions from Professor Krueger's analysis is that a bias toward exports, and particularly a pervasive, well-publicized, and stable government commitment to exports, is most favorable to economic growth. Stress is laid a number of

*The role of expectations was identified earlier, and discussed more extensively, by Ludwig M. Lachman, in Capital, Expectations and the Market Process: Essays on the Theory of the Market Economy, Kansas City: Sheed Andrews and McMeel, Inc., 1977, particularly "The Role of Expectations in Economics as a Social Science" (1943), pp. 65-80.

times on the importance of the known commitment to an export orientation, beyond the measurable effects of, for example, changes in effective exchange rates. The commitment influences expectations about future government actions and encourages export suppliers to believe that currently favorable conditions will be maintained and are therefore worth adapting to. Expectations, unmeasurable but sometimes predictable, can, of course, work against a rational exchange rate policy if potential exporters have learned from experience to expect favorable conditions to be ephemeral.*

The "lesson" here is again one which allows us to examine the likelihood of anticipated outcomes associated with other policies, using a similar logic. In the preceding section, the importance of predictability on the issue of nationalization was identified as a concern for foreign investors. Looking at the U.S. economy today, there are those who suggest that the power of expectations may be having a greater influence on interest rates than are economic indicators. Obviously, the principle suggested here can be extended to still other areas of economic policy and market response.

In another recent publication, which deals with liberalization in Sri Lanka, Egypt and the Sudan, Morrison and Arreaga-Rodas point out a number of "lessons" that can be drawn about policy reform efforts. They note the presence of political opposition, particularly from those who have something to lose, but went on to conclude that "in none of the three countries did political ideology seem to be an obstacle to economic liberalization." More important than political ideology, they conclude, were the strong traditional values of these societies, which in all cases placed a high value on equity, and the fact

* Krueger, op. cit., p. xv.

that the liberalization programs respected this basic value. In examining the elements of these three liberalization programs, the authors sought to identify the easiest and most difficult program elements to implement. International trade and exchange policies, they found, were relatively easy to implement, whereas the process of transferring publically owned enterprises to the private sector was one of the more difficult elements of liberalization to effect. Price control and subsidy changes were also found to be relatively difficult to put into practice. Looking at the case studies from a slightly different perspective, the authors note that Sri Lanka, by combining its liberalization program with an ambitious government spending program, overextended itself and was forced to adopt measures that would restabilize a situation that the government itself had created. The authors caution against the type of spending programs Sri Lanka attempted, noting the obvious undesirability of a "backfire" resulting from the adoption of stabilization measures which may be even more unpopular than some of the liberalization measures in the program.*

The general "lessons" that can be garnered from these three sets of case studies do not form the basis for a "prescription" for the developing countries, with the possible exception of Belassa's exhortation to developing countries to move away from import-substitution policies when the nation's industrial base is established, and there is little to gain, and a good deal to lose, by retaining such policies. On the other hand, these volumes, together with studies such as

*Thomas K. Morrison and Luis Arreaga-Rodas, "Economic Liberalization in Developing Countries: Some Lessons from Three Case Studies -- Sri Lanka, Egypt and Sudan," AID Discussion Paper No. 40, October 81, pp. 48-54.

Jacoby's examination of aid to Taiwan,* may suggest an appropriate sequence for donor efforts to stimulate policy reform programs that foster private enterprise initiatives.

The sequence suggested by reviewing a variety of policy reform experiences is a relatively conservative one, which begins with an effort to understand current policy and its ramifications in the market. The process would appear to involve three key steps:

- Discovering what is happening in an economy, particularly the business sector, as a function of current policy;
- Defining the areas where current policy appears to be constraining entrepreneurs, foreign and domestic, as well as consumers at home and abroad, and identifying policy changes -- or ways of disengaging from active intervention in the market -- which fit the situation and will allow market forces to operate freely to provide incentives and disincentives to the private sector;
- Finding the political will to act on the best options and monitoring the effects of such actions as are taken.

In these areas, AID assistance would tend to focus on the technical and analytic tasks. At the same time, it is not unreasonable for AID Missions, in their strategy documents, to be fairly explicit about the objectives of such policy analysis efforts as they undertake. Discussions of these objectives with the host government, particularly in concert with other donors and, in certain circumstances, the International Monetary Fund, are also likely to be appropriate, since it is within the context of policy objectives that such policy

*Jacoby, Neil H. U.S. Aid to Taiwan. New York: Praeger, 1966.

analyses make sense and have a chance of influencing local decisionmaking.

In the course of examining host government policies, AID should be aware of the possibility that some of the "policies" host governments maintain on paper are not enforced. They may exist for political or bureaucratic reasons, and because of their origins they may be hard to change. In cases where policies that might hinder private sector initiatives are not actually enforced, the old maxim, "let sleeping dogs lie," might well be appropriate.

If, on the other hand, it becomes clear that a particular policy is having negative effects, and the Mission feels that formal or informal discussion with the host country is warranted, there is an obvious choice to be made concerning the grounds for these discussions, i.e., factual grounds, built on an analysis of data about the country, or the grounds of values and political preferences. While discussions based on value systems may be easier to enter, Balassa, in the course of his book on policy reform, seems to suggest that discussions based on facts about the country may be more effective. At the same time, it is clear that discussions based on facts are more difficult to enter, since they require one to first secure and organize a significant amount of detailed information about the country -- a task which is often relatively difficult in developing countries. Once discussions begin, the right mix of analytic assistance and the simple presence of a concerned colleague can evolve and, hopefully, produce desirable results.

B. PROGRAMS AND PROJECTS THAT FACILITATE PRIVATE ENTERPRISE DEVELOPMENT

An eclectic set of resources has been used in preparing the discussion in this section of the paper. Some of the ideas and experiences presented here were drawn from AID's history. A search of Agency projects from the mid-1950s through the current year produced a listing of 481 projects, a portion of which had been evaluated. Through these documents, and through the materials of other donors and publications such as Fortune and the Harvard Business Review, as well as materials prepared in other AID offices, the range of programs and projects that might be indicated in particular situations begins to emerge. While not an exhaustive listing of every option ever considered, the resource base for this section is adequate to provide a sense of the effectiveness and costs of major approaches.

To some extent, this section plays down the role of credit programs in a private sector development strategy. There are several reasons for this. First, as the preceding section points out, credit may not be the primary constraint on private enterprise in the developing countries. Second, credit programs, particularly those administered directly, tend to be very staff intensive. AID's staffing outlook for the coming years does not suggest that staff intensive approaches, particularly those which call for private sector skills -- a scarce commodity in the Agency -- are necessarily the most logical focus for AID's efforts with respect to private enterprise. Finally, credit programs and related programs such as guarantee arrangements tend to be fairly costly (compared to some of the other types of assistance discussed in this section). Thus, from two perspectives, high cost programs may not be the most desirable options: (a) AID's financial

resources, like its staff resources, are limited, which suggests that low-cost program and project options are preferable, and (b) one of the central notions of AID's private sector program is to engage the private sector, using small amounts of public sector funds -- the point of the program is not to subsidize private sector development. We are looking for ways to stimulate private enterprise in the developing countries; to provide major subsidies in the course of this effort would be directly counter to the proposition that the market itself will offer proper incentives, if it is allowed to operate in an open and competitive manner. Ideally, then, a number of the ideas presented in this section will have the dual signature of being cheap and relatively creative, with respect to the tasks they address.

The general categories of programs and projects discussed in this section include:

- Feasibility studies and related pre-investment assistance;
- Brokering, or matchmaking;
- Management training and related assistance;
- Technology access and transfer;
- Infrastructure development;
- Financial institutions and sources of funds for enterprise.

All of these forms or "modes" of assistance deal with programs and projects that Missions can actually plan and implement. Many are already familiar to the Agency, though they may not have been actively employed in recent years. In the following section, a different view is presented of the projects and programs that AID and others have undertaken -- the "success" stories of private enterprise experiences that provided

noticeable development benefits, as well as some not so successful cases. In this section, then, the focus is largely on the means by which private enterprise initiatives might, in a particular situation, be stimulated.

1. Feasibility Studies

A feasibility study, when the topic is a business, is actually a projection concerning the profit and loss statement of the business that is being examined. It is also a study of the market in which that business will operate -- a survey of the probable immediate buyers of the goods or services that will be produced and an analysis of how the business might reach more buyers in the future.

While there are basic similarities between a feasibility study carried out for an enterprise and one conducted before undertaking a public sector program, i.e., both are concerned with whether a proposal describes a "good investment," concern with financial returns tend to be stronger in the private sector. If business ventures do not succeed, investors lose in a very direct way. When public sector ventures do not provide the financial rate of return they promised, they may still be viewed positively if the social benefits they provide are valued. Because private sector investors absorb failure directly, while government entities tend to remain somewhat removed from the financial implications of their "losses," a shift in perspective may be required by those who are used to dealing with the consequences of failure as an abstract phenomenon.

Within AID's historical portfolio only five projects were located which are explicitly described as feasibility study projects. In each of these projects AID provided a host

government with assistance in undertaking a series of feasibility studies, most of which concerned major public and private undertakings. Thus, for example, a feasibility study project initiated in 1966 in Jordan listed as its outputs feasibility studies for the Jerusalem airport, electric power expansion in the area, an Arab potash company, a Zerka River water resources project, a fruit and vegetable processing industry and roughly a dozen other major endeavors. None of the five projects listed as feasibility study projects had been formally evaluated.

The short list of feasibility study projects found in AID's historical portfolio grossly understates the Agency's experience in this area. The bulk of this experience is not to be found in clustered projects, but rather as an element of other projects, including those which provide financial assistance to enterprise through secondary lending institutions. A second major source of experience with private sector feasibility studies is AID's sister organization, the Trade and Development Program (TDP).

Neither TDP's efforts nor the efforts of AID which are subsumed under larger projects have been the subject of extensive evaluation research. TDP's evaluation program is just getting underway. At the same time, AID's regional bureaus, particularly the Latin America bureau, are beginning to extract information from projects which contained feasibility studies but were not labeled feasibility study projects. A summary recently prepared in the Latin America Bureau comments on AID's experience with feasibility studies as follows:

Former FAA section 213 authorized AID to participate in the financing of surveys of investment opportunities in less-developed friendly countries. Administered by the

Office of Development Finance and Private Enterprise, the program was designed to encourage U.S. companies which were considering overseas investment to visit the foreign country and survey the potential market, raw material sources, communications facilities, labor availability, and foreign government regulations. AID would pay 50 percent of the survey costs if the contemplated investment was not made. A 1966 report concluded that the program justified its cost: "AID is obligated for nearly \$500,000 or its share of 56 completed surveys in which the investment decision was negative -- compared with 19 affirmative decisions, which will bring up to \$50 million in American private capital into less-developed countries." This program was deleted from the FAA as part of the amendments to that Act in 1969. However, much of the emphasis of the Investment Survey Program remains in section 234(d) of the FAA, entitled "Investment Encouragement" and currently administered by OPIC [Overseas Private Investment Corporation].

Meeting with less success was a series of "Feasibility Study" loans made by the LAC Bureau to cooperating country governments in the 1960's. These loans were slow-moving, and produced many voluminous reports which sat on the shelves of LDC public agencies and ministries. Although the studies identified investment needs, they became academic exercises in the absence of private investor interest. Programs administered by TDP (i.e., financing specific feasibility studies in response to existing demand) appear to be far more cost effective.*

As this review suggests, much of AID's prior experience in the area of feasibility studies has been gained in connection with investments which would actually, or theoretically, involve

*Memorandum: "Private Sector Development -- AID's Prior Experience," Gary M. Winter, LAC/GC, February 16, 1982.

foreign investors. In most developing countries, the number of enterprises that involve foreign investors will be only a fraction of the total number of private sector initiatives needed to expand a nation's domestic and export market activity. Thus, as Missions consider the need for mechanisms that encourage and finance feasibility studies, it may well be appropriate to examine the requirements of local entrepreneurs for these types of analyses.

As suggested earlier in this report, businessmen in the capital city of a nation may sometimes be relatively ignorant of their domestic marketing opportunities. If mechanisms existed that could assist local entrepreneurs in understanding the markets in secondary cities and towns that can be reached at reasonable costs, such mechanisms might help to stimulate the development of enterprises that operated in and for these markets. A similar reasoning leads to the idea that local businessmen would benefit if these mechanisms could also assist them in understanding markets and business opportunities that could lead to the growth of export industry.

In countries where a good deal of business activity is already underway there may be room for the development of specialized service firms, e.g., market research organizations and technical feasibility consultants. Where such businesses could not survive if they were too specialized, multi-purpose investment assistance firms might be possible on a small scale (with growth following the growth of more basic industry). In countries that are trying to find ways of improving the linkages between their major cities and their more underdeveloped countryside, both governments and local banks might find it in their interest to recommend the use of such organizations or even consider paying part of the cost of these services if potential investors were interested in projects that would

help develop specific elements of the domestic economy, e.g., private transport companies which would both bring agricultural goods to major markets and deliver farm inputs and consumer products to secondary cities and market towns.

The development of local firms which can perform these pre-investment services, rather than placing such services within a government agency, has the advantage of keeping private sector initiatives within the private sector, a feature which investors may well find desirable. In addition, the fact that these firms would themselves be creatures of the market would virtually guarantee that they did not grow beyond their effective size. Placed in government, such services could take on a life of their own and generate costs far in excess of their value.

The development of mechanisms that are responsive to the needs of local entrepreneurs for market information and feasibility analyses should not exclude a consideration of mechanisms that would perform the same services for, or support feasibility studies undertaken by, foreign investors. Ideally, the mechanisms developed for local use could serve foreign investors as well, particularly if they were cognizant of local business law, information pertaining to the probability that a foreign investor's capital might be lost through procedures that nationalized certain industries, and other matters that are of particular concern to foreign investors. Such mechanisms might even play a "matchmaker" role for foreign companies that wanted to do business in a particular country and needed a local partner with expertise in the same field.

Missions could play a number of roles in efforts that would develop local feasibility analysis capabilities to serve local and foreign investors. Pilot efforts could be undertaken by

bringing together local businessmen and U.S. marketing/feasibility consultants to investigate business opportunities that would strengthen domestic markets by reducing transport costs or identifying ways in which existing industries could interact effectively with consumers in secondary cities and market towns. If such pilot efforts were well received, Missions could work with local organizations through government, industry or chambers of commerce to define ways in which skills and technologies for identifying and analyzing markets and business opportunities could be transferred to local entities.

The key point here is to consider not how one feasibility study might be carried out, but rather how the skills and techniques used in undertaking feasibility studies can be transferred to the host country. On a short term basis, expertise might need to be brought in to perform such studies, but over time local entities could begin to apply the same approaches. Such a transfer would not be unlike efforts in which Missions have taken an interest that led to the development of local organizations which have a capacity for undertaking survey research and other social science research procedures.

2. Brokering

Brokering is a catch-all phrase that is intended to capture the idea that there are a range of actions a Mission can take to bring together parties who have a mutual interest with the idea that their mutual interest will eventually lead to a successful private sector venture. Without actually defining the term, it should be obvious that its applications range from the casual, e.g., over lunch or a drink, interaction to formal sessions such as conferences, trade fairs and

organizational arrangements which consider "matchmaking" a basic aspect of their work.

The first step in any effort of this sort involves getting to know the people who should get to know each other. For AID Missions that feel somewhat removed from the business activity in the countries in which they work, other members of the U.S. community may be helpful contacts. In the embassies, individuals concerned with commerce and with labor tend to be in touch with the local business community as do individuals associated with AID-funded labor development programs: AFIELD, AALC and AAFLI. Admittedly, our embassies have a mixed reputation with respect to their contacts with local business; yet it is a useful place to start. With any luck, the words of a Department of Commerce official at a recent symposium on the role of embassies in promoting business will hold true:

I've been told hundreds of times by businessmen that they really never realized that there was anyone in our embassies who could communicate with businessmen. Trade promotion officers like businessmen -- they don't consider it a burden or beneath their status to discuss their problems and aspirations. They establish rapport. I also suspect they have the real advantage of knowing that most businessmen have indeed gone beyond the sixth grade. Too many career FSO's have adopted the outdated British notion that being 'in trade' is not a dignified or acceptable occupation. Businessmen are quick to pick up on these signals.*

*Edmund A. Walsh, The Role of Embassies in Promoting Business: A Symposium, Washington, D.C., 1981, p. 23.

Any trade promotion officer who receives good marks from a U.S. businessman probably has a very good rapport with local businessmen as well and is clearly a person to get to know.

Once the Mission feels it has a reasonably good idea of the enterprise subsectors in which it might be productive to bring entrepreneurs, bankers and other interested parties together in a more formal way, ideas about more substantial brokering efforts may be useful. AID's experience in these areas, at least in the recent past, is relatively circumscribed. In at least two Missions, conferences of businessmen have been mounted with the idea that such events would lead to private sector ventures. In addition, some Missions have experience working with local Chambers of Commerce and similar organizations -- organizations which are often the "brokers" within a business community, albeit in a relatively informal way.

a. Conference Approaches to Promoting Business Ventures

Project ICONE/Manila stands for an International Congress on New Enterprises held in Manila, the Philippines, June 24-29, 1979. The project idea, in which both AID and the U.S. private sector invested, was developed from scratch by a U.S. group, The Enterprise Institute of Worthington, Ohio, an independent and nonprofit economic development corporation. The purpose of Project ICONE was to stimulate an international cooperative effort to establish small and medium size industries in the developing countries as a means of rapidly expanding employment at reasonably low costs. In 1981, AID undertook an evaluation of this project both to determine its effectiveness and to provide guidance for a second ICONE conference that was scheduled to be held in Panama in 1982. The findings of the evaluation offer an idea of what can be achieved through this type of "brokering" effort, when such an endeavor works pretty much as planned:

Total cost of the Project ICONE/Manila was \$959,000, including R&D costs. AID, one of the sponsors, contributed \$45,000 directly to the ICONE conference. Other U.S. Government agencies also participated.

According to some 60 of 225 American and foreign participants, plus several additional government officials interviewed by the contractor in March and April, 1981, the concepts of the Project were worthy of further development. An official of the Philippine Government, host for the conference and a major sponsor, expressed satisfaction with the information on co-ventures acquired at the conference. The conference was judged a public relations success for the Government, and it provided a platform for the espousal of an important Philippine policy proposal advantageous to small business.

An informal and world-wide network of joint ventures may have been started, permitting better global communication about mutual problems. Some 19 business ventures by nine individuals, accounting for perhaps as much as \$27-\$31 million in actual or potential investment, and between 750-1150 jobs, have been attributed to Project ICONE/Manila; one, which may require yet another two years or more to materialize, could lead to a substantial venture abroad for two American companies.*

The evaluation report also suggests that there were some problems with this initial ICONE venture, having to do primarily with organization and management, the targeting of participants and some of the sessions, follow-up and other matters which the evaluation consultant reported were being addressed in the course of the preparations for the Panama conference. In commenting on the ICONE conference in Manila

*William B. Miller, "Project ICONE/Manila: An Evaluation," prepared by TransTech Services USA, Alexandria, Virginia, under Contract: LAC-0044-C-00-1021-00, June 1981.

as well as the planned conference for Panama, the consultant noted that "an undertaking such as Project ICONE, if entered into seriously for purposes of creating durable business development rather than more ephemeral public relations advantages, should be regarded as just that -- a potentially medium-to-long term project requiring commitment. The Manila experiences suggest that [Project ICONE's] goals are certainly not best served when it is treated as a traditional short-term 'impact' program or as a 'one-time shot.'"

The advice about the relatively long-term nature of any effort to develop sustained interactions within a business community or between business communities is probably well taken. Other experiences with which AID is familiar, such as the effort to develop the Central American Common Market are essentially long term in nature. They are initially ideas which require nurturing and the patience to go at the pace that suits the nature of the business community in a particular economic and cultural climate.

In this sense the ICONE evaluation's use of the term project may be misapplied, given the time, pace and budget structure associated with a formal Agency project. Rather better, perhaps, would be a long term commitment to fund a series of small/short-term projects or contracts that give the long-term notion some assistance as and when assistance was needed. While a conventional project may be the wrong vehicle for this type of "brokering," the evaluation's point about a long-term commitment seems to be a valid prescription.

While Project ICONE was and is intended to be an international endeavor, there is no reason why the concept, or a variant thereof, could not be scaled down to fit a single developing country. At a country level, the form of such an endeavor

might be somewhat different, and might from the beginning have elements which would facilitate its operation over the long-term. It might, for example, take the form of a working group associated with the Chambers of Commerce or trade organizations that already exist within the country.

b. The Business "Clearing House"

Another idea, which falls somewhere between "brokering" and feasibility studies, is the concept of a business "clearing house." One AID project that tried to implement such an idea seems to have failed miserably, yet its failure is instructive. The project was the Inter-American Investment Development Center. The objective of the project was to organize and manage an investment promotion center or "clearing house" for the purpose of stimulating increased private U.S. investment in Latin America by presenting screened and approved investment opportunities to U.S. investors. As an idea, the "clearing house" notion has some appeal, even on a single country scale where a smaller version might focus on the needs of small ventures within a country for larger local partners.

The evaluation AID undertook of its Inter-American Investment Development Center indicated that at the beginning of the project it was anticipated that the role of the Center, which was located in New York, would be primarily one of reviewing investment proposals submitted by the Center's affiliates in Latin America and presenting them to appropriate American firms. As implementation proceeded, it became clear that the "concept over-simplified the problems of developing viable projects which would meet the standards of U.S. investors and

of Latin American entrepreneurs."* The evaluation goes on to report that from the outset the Center had to struggle with the problem of poor quality proposals. Faced with inadequate proposal development, the Center found itself having to educate those for whom it had only intended to provide "brokering" services. The Latin American associates, which were usually development banks or government agencies, turned out not to have the right kinds of staff for these endeavors and at times "invented" rather than developed projects in which local entrepreneurs had a real interest. At the same time, the evaluation notes, local entrepreneurs who did have a workable proposal often avoided contact with the associates, fearing, for example, that their proprietary rights to the investment idea might not be taken seriously.

In documenting the failure of the "clearing house" project, the evaluator took away the following "lessons" that bear repeating:

- To the degree that ventures of this sort are planned in the future it should be expected that the "clearing house" facility will need to provide technical assistance to entrepreneurs in developing marketable proposals.
- Far better than orienting a "clearing house" toward the marketing of developing country proposals in a developed country where such proposals must compete with attractive alternatives, would be a reversal of the process: a "clearing house" that specialized in directing developed country firms to the developing nations where the firms' interest and expertise were most likely to find a developing country partner.
- Recognize that any "clearing house" set up on a self-supporting/commercial basis is itself in business --

*Transmittal memorandum covering an AID report on the Inter-American Investment Development Center. Leonard Yaeger, LA/DR, March 2, 1972, Evaluation section, p. 2.

and will tend to act in a manner appropriate to its own viability as well as the needs of its clients.

While the "clearing house" example described above was not highly successful, the notion of a "clearing house" is a useful one that can be applied in other ways. For example, one simple version that developing country governments might initiate is a "one stop shop" in which foreign investors could conduct all their business in the areas of customs clearance, work permits, licenses, taxes and other paper work tasks required to do business in a particular country. By using the "clearing house" concept in this way a number of transactions which foreigners often find to be time consuming and even stressful could be streamlined to the advantage of both the host country and the foreign investor.

c. Trade Fairs

Another form of "brokering" which can produce successful results when carefully combined with appropriate technical assistance is the "trade fair." Trade fairs, which are actually opportunities for developing countries to display and market their export products for international buyers are also opportunities to make contacts that can lead to higher production in these developing countries.

In general, trade fairs have a fairly bad name; many have been total failures for the countries that held them. However, a recent article in Development News shows how Sri Lanka and Bangladesh have been effective in changing the character of such events:

Very often, manufacturers in developing nations do not understand the nuances of the different markets they are trying to

reach...."Nobody buys" proclaimed the headline on the lead article in Time Magazine's Economy and Business section, reporting on the results of the first trade show sent to the United States by the People's Republic of China....The first Kenya trade show in New York drew good attention but disappointing sales....These experiences underscore the point that development work cannot be divorced from the demands of the marketplace.

There is, however, evidence to suggest that development efforts can be successful if they are cast in the right mold. In the last three years some of the international funding agencies have made better, more effective use of available funds, by supporting a systems approach to export development work that is producing real results. It is a new interdisciplinary program which ties together all the varied facets of product development and marketing and offers a "turn-key" package rather than segmented and uncoordinated programs. The Export Development Division of the Commonwealth Fund for Technical Cooperation, London, was the first to discover the advantages of this new program. Then, the International Trade Fair Center (UNCTAD/GATT), Geneva, followed soon after. These agencies have had the foresight to fund these programs.

Two such programs have been implemented -- successfully implemented -- for the nations of Sri Lanka and Bangladesh. The programs take participating manufacturers and government officials through all the stages of product development, including design and quality control, market entry and even follow-up of initial sales.

In these programs success is evaluated not just by initial sales (which are important) but even more by achieving a successful market entry with capability for self-sufficient market operations upon which to capitalize and expand....

Everything about these programs is market oriented. The programs provide parameters, so that training takes place within the context of clearly perceived marketing objectives.

In the Sri Lanka program, 20 firms were introduced into the American market through the medium of a single country exhibition called the First Sri Lanka Trade Fair. None of the 20 participating firms were multinational; they were, rather, all local industries with small industrial bases. Many of them were exporting to the United States for the very first time. All brought products selected, modified or designed specifically to appeal to buyer preferences in the American market.

The results of their participation in the program was enough to engage the attention of even the most skeptical. Because of the adequate preparation included in the program, business at the show was brisk....In the final analysis, the cost of the Sri Lanka program amounted to only 2% of the total sales volume created. By any standards, a cost of 2% of resultant sales is an incredible performance.

Important as the foreign exchange was, other direct economic benefits to Sri Lanka's long run development were even more important: 300 new jobs were created in Sri Lanka to handle the new orders, 12 new production facilities were created, and several existing facilities went into double shift operations.*

Of all the "success" stories turned up in the course of this investigation, the story of Sri Lanka's trade fair is perhaps at once the most inspiring and the most important. More than all of the other examples provided in this paper, this Sri

* Development News, New York: International Marketing Group, July 1981.

Lanka story most clearly illustrates the fundamental concept put forth at the beginning of this paper: For there to be business, there must be both a seller and a buyer and they must agree.

The fact that highly effective programs for export marketing are coming from Britain rather than America may surprise some. On the domestic market, America's image as a nation of marketing specialists is fairly strong; yet on the international front, we clearly have not found all of the answers. A recent Washington Post article notes that the U.S. private sector is studying whether and how to extricate export promotion from the hands of the government.

At the same time, the U.S. Department of Commerce's International Trade Administration has taken an important step in simplifying the complex maze of information an average U.S. firm needs to understand before it considers exporting its products. A recent publication, which demonstrates that the government can write in simple English, provides a wealth of basic information. It reads like How To Succeed In Business Without Really Trying and will very likely reduce the amount of time on the telephone and number of individual letters associated with first contacts about exports with the department. It's worth ordering a copy, and it may be worth considering whether businesses in the developing countries might be helped by small projects with host governments that produced similarly compact and readable guides.*

While these are but a few of the forms that "brokering" could take, they are indicative of the ways in which businesses

* A Basic Guide to Exporting, Washington: United States Department of Commerce, International Trade Administration, November 1981. (Copies of this publication are being ordered for each AID Mission.)

might be introduced to new markets as well as to sources of capital and technical assistance in marketing their ideas.

3. Management Training and Related Assistance

Simple business skills are often in short supply; the lack of them can lead firms into a wide range of problems, from cash-flow difficulties, to excess inventory, to payments never received because they were never properly noted. Big companies can get into just as much trouble in these areas as small ones. In even shorter supply are management skills -- and these are the harder of the two types of basic private sector skills to teach. In addition to these basics, businesses often find that their understanding of market analysis, promotion, packaging, new technologies and the laws of the countries to which they export a portion of their product can limit their efficiency and their effectiveness in the market.

Over the years, AID has provided a wide range of training program assistance to address these needs, ranging from simple courses in basic accounting to the development of INCAE, the Central American Business School developed with AID support by Harvard. While AID readily recognizes the importance of education and training programs, its evaluations in this area have rarely provided the type of long term follow-up data that provides a full understanding of how training has been put to use. Thus, for example, the most recent evaluation of INCAE presents a clear picture of the program's management and the flow of students through the school, but it does not describe in detail what INCAE's graduates are doing with their business training. A similar situation exists with respect to smaller scale training efforts, even though some are long standing efforts in a range of pertinent areas. Occasionally, the effects of training programs surface in other ways. For

example, the February 11th edition of the Washington Post devoted nearly a column to the success of Ethiopian Airlines, without mentioning the range of ways in which AID supported the development of this profit making "success." A search in AID's historical files produced a summary report on Project 633-37-907: National Airlines Training Program, USAID/Ethiopia. As the Washington Post notes: "The technical training program began three decades ago before Ethiopia had a university and at a time when there were only 10 high schools, with 1,700 students."

The AID report on the project notes that realistic objectives were one of the reasons for the project's clear success. One suspects that there are many other success stories resulting from formal training programs developed by AID as well as from its participant training in the United States. Clear evidence of the connection between AID training and business success is not, however, readily available in the form provided here concerning this particular case.

While formal training programs are obviously one of the ways AID could assist enterprises in the developing countries in improving core business skills as well as management skills, studies of the training received by those who are now running businesses in the developing countries suggest that AID should take a close look at the opportunities that exist for strengthening existing on-the-job training experiences. As a survey undertaken in Mauritania by the International Labor Organization in 1978 shows, many of those who go into business were once apprentices:

The survey showed that the manufacturing and service sectors employ a great many apprentices: 41.6 and 63.5 percent of their respective workforces....[I]n general, these

apprentices receive payment in cash and in kind to the value of about 350 ouguiyas a week, i.e., approximately 40% of an unskilled laborer's wage. We shall not go into the question of whether the value of the training provided compensates the apprentices for the loss of possible earnings elsewhere since we do not possess the necessary data. Nevertheless, it is clear that this type of training costs society nothing, that it provides the best preparation for self-employment, that it respects traditional values and hence offers the most appropriate formula for absorbing young rural migrants suddenly brought face to face with a modern urban social structure. Moreover, it has already enabled a considerable number of small entrepreneurs to start up their own businesses.

The survey shows that in manufacturing, services and building, 63.4, 84.2 and 21.6 per cent of the entrepreneurs received no other training than that acquired in the informal sector. Despite this, on the whole they seem to run their businesses just as well as other entrepreneurs who served an apprenticeship in the formal sector, if one takes into account that they usually have much less equipment than the latter.*

This finding agrees with evidence presented in other studies of small and medium businesses, particularly the World Bank's examination of Korea and Taiwan and the Michigan State study of Sierra Leone, discussed elsewhere in this paper. On the other hand, the ILO report also finds that the entrepreneurs who have come up through the training provided by formal or informal sector apprenticeships are at a disadvantage relative to the roughly 5 percent of the entrepreneurs who have attended courses at a vocational training institute.

* Georges Nihan and Robert Jourdain, "The Modern Informal Sector in Nouakchott," in International Labor Review, Volume 117, No. 6, November-December 1978, p. 711.

The combination of findings suggests that a mix of training approaches for the private sector may, in some developing countries, be the most useful options, i.e., an effort to upgrade apprenticeship programs, perhaps by offering special after-hours course work to them in key areas such as accounting. When such course work could be provided, local entrepreneurs who also lack this type of basic business education might well take these courses on a paying basis.

Two other avenues for simple business skill training AID might consider examining are the training programs provided by labor unions, often with the assistance of AID-funded labor union development grants, and the training programs for members which are part of nearly every cooperative and credit union organization AID has ever assisted. By tapping into these existing channels, or simply sharing with labor, cooperative and credit union staff information about the types of business skill shortages that can be observed in local enterprises, a relatively easy route for increasing the local stock of this kind of training might be worked out. While unions and cooperatives might see the logic of such a plan, they might not immediately envision a way to offset the cost of developing and presenting such courses. Here another "left field" idea may come in handy. In virtually all of the major accounting firms and among many stockbrokerages in the U.S., programs for educating members/clients have been increasing rapidly in the last few years. What seems to have happened is that these organizations recognized that they had expertise their clients wanted to begin to acquire and for which they were willing to pay a nominal price. Rather than shying away from such projects, fearing that the clients would not need their teachers once the information was transferred, these organizations have plunged ahead -- with seemingly great success. Over time the course offerings have expanded beyond

the basic areas of firm expertise to cover more general management topics, and there is no sign of a retreat based on a loss of customers.

Management training, as indicated earlier, is one of the hardest types of training to provide. The heart of the problem lies in the fact that management is better "learned" than it is taught. Harvard Business School's success and INCAE's notwithstanding, most management skills are acquired in the real world, not in the classroom. Most major businesses around the world have recognized this fact and responded to it. Two of the main responses of business to the "management is learned" phenomenon are in-house management training programs and fast-track promotion programs which allow top management to move able young managers ahead without regard to their seniority, age, departmental position, etc. Such programs are virtually unknown in the public sector; to the degree they are known, they are likely to be considered destabilizing -- something to be kept far away from the steady advancement paths of a civil service. In some countries the rapid advancement of management talent through a firm might not be acceptable even in the private sector. However, where such programs can be instituted, firms can often move beyond one of the major constraints they face when they consider business expansion.

Right behind business skills and management training lies a fairly general need for technical training, as the Africa Bureau's draft paper of "The Development of African Private Enterprise" points out. While the need will obviously vary from country to country and industry to industry, basics such as how motors work, electrical wiring, carpentry, the operation of machines, and other skills essential to a wide variety of businesses generally need to be made accessible.

Vocational schools teach these basics, but the people who need to know them do not always go through vocational schools. Thus, supplemental or alternative sources need to be developed, often with the adult learner in mind. In West Africa, the Africa Bureau paper notes:

..an organization which probably provides the best example of [tailor-made training that takes place at the business sites] is the "Association pour la Formation des Cadres de l'Industrie et de l'Administration," (AFCA). This organization has been providing specially tailored programs to African enterprises in 7-8 countries since 1962. It receives about 15% of its support from the French government and the balance from fees it charges its clients.*

While, as was noted above, evaluations of such programs do not usually provide adequate information to determine their long-term value, the AFCA is obviously doing something right -- its survival on a fee-for-service basis for some 20 years is sufficient evidence to demonstrate the point.

4. Technology Access and Transfer

While simple business skills, management training and basic technical training are essential for starting up firms and maintaining their operations, these resources are not adequate to guarantee that enterprises will move along with the state-of-the-art in a particular area or be able to move ahead of a competitor. New technologies of many types, including those associated with management and marketing as well as production

*"The Development of African Private Enterprise," draft discussion paper, Office of Regional Affairs, Africa Bureau, AID, October 1981.

processes, are a main avenue for business advancement -- if such technologies can be accessed and applied.

In the last section of this paper it was noted that firms in the developing countries can face several types of difficulties in their efforts to acquire and apply technological innovations. Both the "proprietary" nature of many technologies, i.e., the fact that companies which use them often own them and keep their elements secret, and the capacity of host managers and technicians to absorb technological change, limit innovation.

In his study of technology transfer in five developing countries, Wallender pointed out that the internal characteristics of a firm, e.g., its organizational form, management and work force, its environment, i.e., the supporting network of suppliers, access to consultants who specialize in a particular technology, etc., and the process that is used to transfer a technology all effect adoption at the level of the user firm.* In companies which are tied via ownership to U.S. corporations or firms in other developed countries, some of these problems are readily solved. And it is within such joint venture arrangements that many cases of successful technology transfer are to be found. Thus, for example, Harbridge House's study of firms which had received investment guarantees from the Overseas Private Investment Corporation (OPIC) suggests that not only are technology transfers from the parent firm to the developing country firm successful, in-country technology developments may also take place in these situations. In describing Carton de Colombia, an affiliate of the Container Corporation of America, the study reported:

*Wallender, op. cit.

Most of the technology needed in the production process has been imported from the United States, where it has been developed by Container Corporation and others. However, there are several areas in which Carton has developed significant new technology within Colombia, for example:

...Generally, short-fibre woods -- such as the tropical hardwoods of Colombia's forests -- are not suitable for the production of heavy-duty materials such as containerboard and boxboard. In the United States, Container Corporation and other producers use long-fibre softwoods for pulping. For many years, Carton depended upon the import of long-fibre pulp to support its containerboard production; however, in 1959, Carton and Container Corporation engineers, striving to find a way to substitute Colombian raw materials for imported pulp, found a means of using Colombian tropical hardwood for producing high-strength packaging materials....[A]s a result of this discovery, Carton is now able to satisfy 75 percent of its pulp requirements from local raw materials. Today, Carton is one of the few paper products manufacturers in the world able to use short-fibre tropical hardwood pulp so extensively in the manufacturing of heavy-duty packaging materials.*

Noting that the interaction between technology specialists from developing and developed countries does not occur as readily in situations where firms are owned locally, Wallender examined a number of sources of management and technology assistance that can be accessed by the private sector in at least some of the developing countries. In his review he included both private firms that provide these services and other types of organizations ranging from non-profit, quasi-governmental organizations to the International Executive

* U.S. Investment Ventures in Developing Countries, Boston, Massachusetts: Harbridge House, Inc., 1972, p. C-IV-6.

Service Corps, which receives AID funding. In describing three such organizations (CEBRAE, Centro Brasileiro de Assistencia Gerencial a Pequena e Media Empresa or Brazilian Center of Management Assistance to Small and Medium Firms, Brazil; KIST, Korean Institute of Science and Technology; IESC, International Executive Service Corps, out of New York), Wallender emphasized the way in which these organizations combined management assistance with technology transfer and development efforts. Speaking of the IESC, he says:

The value of the IESC program is the ability to target specific problems in firms in virtually any industry, to locate a consultant with the appropriate skills, and to structure the consulting visit....In many cases, the IESC project opened the client to new management systems that triggered a change in attitude among client personnel that has led to more effective management through better internal problem diagnosis and design of solutions. The strengthening of local skills for diagnosing and solving problems reduces dependence on outside assistance and increases the ability of local firms to receive and utilize technology, and thereby facilitates the transfer of technology.*

While Wallender points out that access and management readiness are the keys to successful technology transfer and development, he also notes that this is an area which can be affected by policy shifts. Describing the negative effects policy changes can have, he relates the story of one Peruvian firm:

The case of Productos Quemanyo is an example of a firm whose plans for capital improvements were profoundly affected by the

*Wallender, op. cit., p. 201.

requirements of government. Productos Quemanyo, located in Peru, produces and processes cheese, butter and yogurt. In response to government tax incentives in the early 1970s to reinvest profits in capital improvements, Productos Quemanyo purchased from foreign suppliers new butter-making equipment although existing equipment was not in any need of replacement. The old equipment, which was functioning well, is still being stored by the firm to use if the newer machines break down. As part of the capital improvements under this incentive, the firm purchased a yogurt producing system from a U.S. firm. However, before production of yogurt began, the government issued a new price control that forced the firm to sell yogurt at a price below the production costs. The implementation of the firm's plans, which were required by the government, adversely affected the firm's operations as a result of changes in the external environment.*

As the foregoing discussion suggests, the issues of technology transfer and technology access in business are a good deal more complex than they are, for example, in agriculture. Instead of considering ways of introducing a single technology to many users, as the International Rice Research Institute has attempted in its small scale technology assistance efforts, almost every firm must be treated as a special case -- requiring technologies that may not be needed anywhere else in a country. This is particularly true in the "hard" technology areas which affect production processes, as opposed to such "soft" technology areas as management systems and accounting techniques which have relevance to a number of enterprises of a given size and general character.

Recognizing that many potential areas of technology transfer to enterprise and technology development by local firms will

*Ibid, p. 74.

have a "unique" character, Missions might find it useful to examine options for approaching this area which are inherently broad-gauged, such as the International Executive Service Corps, "clearing house" types of organizations (such as those examined in terms of financial arrangements in the section on "brokering"), and the development of various types of networks that could connect firms to individuals and organizations that could assist them. In this latter category, chambers of commerce, technical societies and ways of organizing individuals with information and interest, such as the commercial officer at the U.S. embassy, local university staff and businessmen who have already engaged in technology development and use may be appropriate as resources. Within countries, it might be possible to set up local versions of IESC that provide opportunities for more advanced entrepreneurs to assist those who have had little experience. Such arrangements might even make sense on a voluntary basis, for a few hours a month, if the businesses that were to receive assistance were the natural suppliers for goods and services that more advanced enterprises require.

5. Infrastructure

While a review of the successes and failures in AID's experience with infrastructure development would require a whole separate volume, it is important to note that in such works as Jacoby's classic study of aid to Taiwan, infrastructure development played a major role. The critical nature of infrastructure in the expansion of markets has also been pointed out in the first section of this paper.

In most of the developing countries outside of Africa, AID has a long history of infrastructure development work. In some of these countries AID was involved in building the primary

highways of nations and the highways that link one nation to another. In the recent past AID has not been involved in as many of these major transportation system development projects as it was in earlier times. Yet looking at the world today, it is clear that the timing of major donor infrastructure projects has left Africa in a very different position from most of Asia and Latin America. The different position of Africa with respect to a backbone transportation network is pointed out by the Africa bureau in its draft private sector paper, and the same point is made in current CDSs.

Where roads and other basic transportation networks exist, but appear to be underutilized, Missions may want to examine the structure of the transport industry, as was suggested in the preceding section. Investments in transport industries, through existing agri-business lending institutions, might be a natural compliment to those on-going activities where "more carriers" appears to be a way to increase market size for both the agriculture and manufacturing sectors.

In a recent World Bank paper, Willoughby presented a useful discussion of the way in which policy changes with respect to transport are creating new opportunities in this area:

Most transport services are neither natural monopolies nor subject to significant economies of scale in operation. These services operate most efficiently when competition among them is promoted and the economic regulation -- introduced in many countries in the face of worldwide depression in the 1930s -- is reduced. In the same way, deregulation can be expected to stimulate imaginative and economical private initiative in other areas besides transport, such as long-distance telecommunications, solid waste collection, and the disposal, treatment, and reuse of liquid wastes for agricultural purposes.

The developing countries, with the Bank's encouragement, have traditionally taken a rather pragmatic attitude to the organization of transport services. Some that had developed government owned companies are now reducing the role of the public sector or are even turning the service over entirely to private enterprise. In the Congo and Guinea, despite state socialist ideologies, most road freight is carried by private companies, mainly owner operators. In Zaire, private enterprises have been providing a steadily increasing share of river transport services, while Sudan is planning to break the public monopoly of river transport on the Nile. Both India and Sierra Leone closed their central government trucking companies a few years ago. In Sri Lanka, private enterprise is rapidly penetrating the intercity and rural passenger transport market, both of which were previously reserved to the state monopoly.

...A particularly dramatic case of successful deregulation involves the interurban and rural bus transport in Chile. In 1977-78 the requirement for government preapproval of fares was eliminated. In 1979 all route and service licensing was abandoned. In 1980 even the requirement to report fares to the Government was dropped. As a result, there has been a large expansion of bus companies and services. Fares are about the same now in real terms as they were in 1970 -- except on the longer routes to the north and south of the country where quality of service has been vastly improved. In the five years between 1974 and 1979...the number of long-distance bus passengers in Chile has quadrupled, reaching more than 60 million in 1979.*

* Christopher R. Willoughby, "Infrastructure: Doing More With Less," in Economic Development and the Private Sector, Washington, D.C.: The World Bank, 1981, p. 11.

Communications, power and water are three other elements of an infrastructure that enterprises need or consider to be highly supportive. AID has experience working in all three of these areas. Once again, these systems, like major transportation networks, tend to be expensive as well as capital-intensive for the most part. Consideration of these areas is an important element of a review of the constraints on markets and business development in any country. However, only when such a review is completed will a Mission know whether these constraints are critical.

In all infrastructure areas, it is important to remember that the identification of an infrastructure constraint does not necessarily mean that AID should actively involve itself in removing the constraint. In many countries, private industry has itself invested in infrastructure development -- particularly when at least one reasonably large industry perceived this kind of constraint. In some cases the industries involved were engaged in extracting minerals and other resources that required shipping from an interior point. In the current developing country environment the needs for infrastructure may be spread across a number of small and medium size firms. Pooling the interest and the resources of these firms and focusing them on infrastructure construction may, in some situations, be a possible avenue to pursue.

6. Financial Systems and Sources of Funds for Enterprise

When an AID program in a developing country is examined on an annual basis, the way in which specific projects that touch the country's financial system relate to each other and to the overall structure of financial opportunities may not be obvious, even to Mission personnel who have spent several years at a particular post. Viewed as a whole a country's

financial system, by the way it is organized, can either work to promote a variety of types and sizes of enterprise or it can favor certain segments of the private sector. In this section, experience with the development of financial systems, as well as with specific mechanisms for making funds available to enterprise, are examined.

a. The Development of Financial Systems

As suggested in the preceding section, it can be hypothesized that when access to credit is organized in a manner that encourages the competition for capital between, for example, medium-size industries, rather than among small, medium and large enterprises, the private sector will develop in a reasonably balanced way. An example of what appears to have been a longitudinal effort to fill out the financial system of a country through development assistance projects is offered by Ecuador. A very preliminary examination of AID's program in this country suggests that, through a series of projects, many of the elements of a financial system that offers opportunities for private sector ventures of varying size have been assisted in their development. The effects of this conscious or semi-conscious program for filling out the country's system of financial institutions may have had the cumulative effect of making later projects in the sequence relatively more successful than they might have been if other elements of the financial system had not already received attention. An evaluation of Ecuador's Small Enterprise Assistance project reinforces this thought:

Following lengthy start up delays, the loan was successfully implemented and fully disbursed by April 1977. A total of 295 sub-loans to small enterprises were financed under the loan with particular benefit

accruing to makers of processors of metal, plastics products, small appliances, furniture, clothing and wood products. The loan's major accomplishments, aided by 032 and 033 AID loans and the World Bank cattle loan, is the strengthening of the GOE's institutional funding mechanism/(Central Bank financial funds) and the opening of new channels for the movement of vital resources to developing sectors. Ecuador's small industry sector has expanded to 22 cities throughout the country. USAID's 1976 survey showed that 535 new jobs were created in a sample of 162 small enterprises inspected. Total production in sampled enterprises increased 31% over the previous year with an average increase of 72% in the utilization of local raw materials.*

By piecing the history of project assistance together, it is possible to develop a rough diagram of the manner in which elements of the Ecuadorian financial system have been encouraged to concentrate their investments in discrete segments of the economy, with virtually all segments of the private sector receiving the benefits of access to credit and related support services. Figure 2 presents a rough picture of the way in which AID projects have assisted specific institutions while at the same time helping to fill out the overall financial system. It is also worth noting that this diagram contains one institution which is not technically financial in nature: a government organization that deals in standards and measures. As suggested earlier, the setting of standards is typically a government function which tends to facilitate the development of private enterprise and the possibility that domestic manufacturers will compete effectively on world markets.

* Abstract of the final evaluation of Ecuador's Small Enterprise Assistance Loan, Number 518-L-034, 3/12/79, from the Office of Development Information, AID.

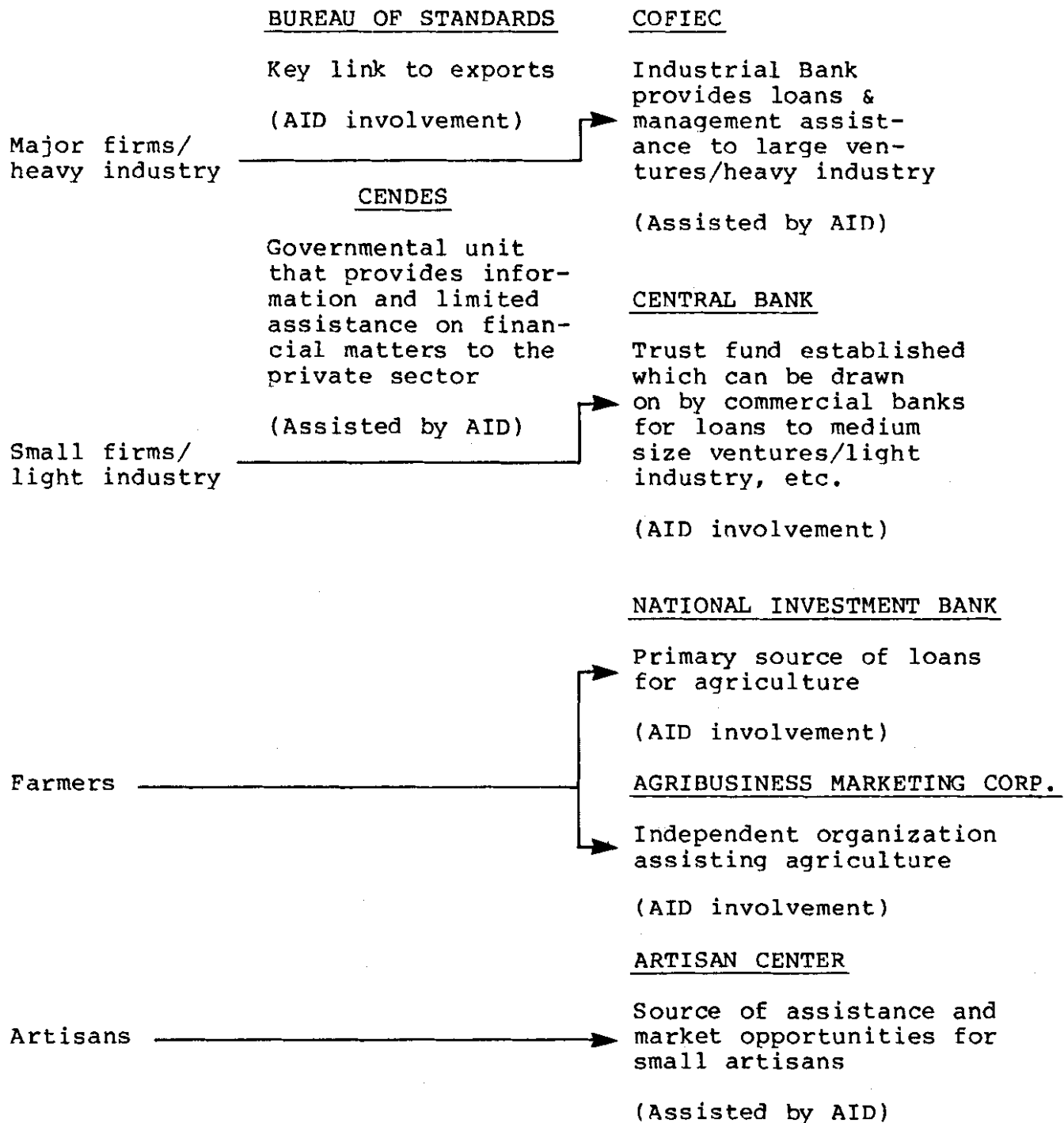


Figure 2. Authors rough diagram of the manner in which Ecuador's financial institutions appear to differentiate among credit needs

b. Sources of Funds for Enterprise

By and large, donor organizations have tended in earlier years to act in a manner which would suggest that they consider the capital needs of entrepreneurs -- particularly the investment capital needs -- to be the primary constraint on private sector initiatives in the developing countries. Any review of AID's portfolio over time, or donor portfolios in general for that matter, tends to confirm this impression. The majority of projects and programs aimed at the private sector have tended to be ones which arranged for investment capital, in one way or another. Since entrepreneurs rank their own needs, and their perceptions concerning business constraints, differently upon occasion, it is tempting to conclude that donors may simply find it easier to provide capital than to address other factors that constrain private enterprise and the full development of markets. At the same time, aggregate data makes it very clear that concessional donor assistance provided only a fraction of the capital for private sector initiatives in developing countries over the past several years:

It is difficult to calculate the magnitude of external financing for industrial development in the Third World since current data are incomplete with respect to the sectoral breakdown, but based on the information available....[T]otal external financing to Third World industry in 1978 was on the order of \$16 billion; some \$14 billion of this was to manufacturing.

The bulk of these flows came from private sources. During the 5 years, 1974-78, ODA [Official Development Assistance] doubled,

reaching \$1.2 billion in 1978, but non-concessional finance rose nearly four-fold.*

When country level data are considered, it is clear that even the non-concessional assistance provided by donor organizations neither reaches a majority of the businesses in developing countries, nor does its absence appear to determine or constrain the extent of their activities.

The manner in which AID and other organizations assisted developing country enterprises in securing investment capital has taken a variety of forms, none of which appear to have paid particular attention to meeting the working capital needs of these same enterprises. The major forms of capital assistance over the years have been loan and guarantee programs. In this section, these forms together with several other arrangements for providing capital are examined, including:

- Direct loans, in U.S. dollars;
- Cooley loans, using PL 480 resources;
- Co-financing;
- Lending through intermediate institutions;
- Guarantee programs;
- Ventures involving equity participation

(1) Direct Loans

As some of the reviews of AID lending programs undertaken in the past several months have suggested, AID has tended to lend directly only when the amounts involved were relatively large. Loans to private companies, which are discussed in a recent

* Helmut Fuhrer, "The Industrialization of the Third World," in the OECD Observer, January 1980, p. 25.

paper prepared in the Latin America bureau, "included examples of successful projects with individual firms, and some highly visible failures, most of which were due to the degree of experience and commitment of the private investors on whose judgment...AID relied, as well as to the degree of capitalization of the activity."*

Following a discussion which includes case descriptions of several of the more memorable failures, the paper reaches the following conclusions concerning AID's involvement in direct lending to industry:

[I]t does not appear that the United States achieved much in the way of long-term institutional benefits under the direct lending program. Moreover, the program was very staff intensive compared to the level of resource flow, particularly in connection with those problem projects which experienced repayment difficulties, and it required a staff with very specialized skills. On the other hand, an important purpose of the DFL [Development Loan Fund] was to transfer resources, which it did. It may be said, in addition, that the creation of strong private sector entities did result in institutional benefits to the host countries. This certainly has been true in the case of Hyundai Construction, for example, a small Korean company which came to the DFL for assistance in 1959 and currently has sales in excess of \$2 billion per year.**

(2) "Cooley Loans"

By reputation, "Cooley loans," which were made using the foreign currencies generated under PL 480 Title I sales

* Gary M. Winter, LAC/GC, "Private Sector Development -- AID's Prior Experience," 2/16/82.

** Winter, op. cit.

agreements, were more successful than the dollar loan programs in which AID was involved. No hard evidence exists to support this contention, and Winter suggests that this program, like the DFL, had its successes and its failures. Nevertheless, AID staff who have experience with these local currency loans perceive them as being more successful. Several factors may pertain to this perception including the local character of the program, familiarity with the businesses to which loans were being made and the presence of individuals in the Missions who had skills in this area and a "feeling for" the local business community. No new "Cooley loans" have been made in the past several years, and the historical data on this program and on direct dollar loans is insufficient to make either case convincingly. Yet, like the dollar loan program, these loans were reported to have required a good deal of specialized staff time -- staff levels and specialized skills that AID is not likely to see in the 1980s.

(3) Co-Financing

Co-financing arrangements, in which AID joins with another institution in a program that makes loans to enterprises, present a less staff intensive means for providing the type of credit that direct dollar loan programs and "Cooley loans" sought to provide. The difference lies in the fact that while AID provides capital to such arrangements, it does not necessarily need to be involved in the appraisal and monitoring of every sub-loan made by its partner. In addition, this program, unlike more direct loan programs, tends to build an institutional capacity within the partner institution. Perhaps the best example of co-financing is to be found in the Latin America Bureau's LAAD program, which has been heavily involved in agri-business loans that not only transfer

resources, but also help to develop linkages between businesses and the agricultural sector.*

The key to developing successful co-financing arrangements appears to lie in identifying a responsible institution that can act as AID's partner in this type of lending program. In the LAAD case, AID has not only found an institution it can work with from a financial perspective, it has found one that takes a proactive stance with respect to the types of businesses it finances, i.e., ones which appear to be involving small farmers and small entrepreneurs in the market as suppliers for medium size firms.

(4) Intermediary Lending Institutions

Another type of program, similar in some ways to co-financing arrangements, has involved the establishment of development banks and other types of lending institutions. More explicitly institution building in character than co-financing arrangements, these programs have the desirable feature of fairly low AID staff involvement with specific transactions. In commenting on AID's experience with development banks, credit unions and other intermediate credit institutions, the Winter paper notes that:

AID's support to these institutions has been geared to ensure that with time the banks would be able to demonstrate their viability and profitability in such a manner as to attract other financing and eventually become self-sustaining, financially independent institutions. Practically all AID loans to development banks have been accompanied by

* An example of the type of enterprises that LAAD is developing is presented in the next section of this paper.

which suggest that programs of this sort may be too staff intensive for AID, given its current personnel projections:

- With a staff of 388, the IFC approved a total of 56 projects in 1981. The average size of each investment was \$2.2 million;
- In 1981, the IFC indicated, roughly 50 percent of its investments were made in the relatively poorer countries -- which, when inverted, suggests that the IFC staff is quite often working with relatively sophisticated countries and entrepreneurs.

While AID has, upon occasion, become involved in ventures that involve a degree of equity participation such as the Philippine Private Development Corporation, the idea of equity participation in firms overseas generally raises concerns among AID staff members. Nationalization is first on the list of such concerns. In addition, other questions tend to be raised in conjunction with this type of approach, i.e.:

- Questions about how AID would respond in situations where it was clear that a firm would go under unless major additional doses of capital and technical assistance were added to the original investment;
- Questions about how AID, as a stockholder, might respond to situations in which the business practices of the local managers were found to be questionable; and
- Questions about potential conflicts of interest between firms in which AID had an equity position and host government policies, e.g., where changes in policies or regulatory practices would adversely affect the firms' operations and its profits.

POSITIVE PRIVATE SECTOR PERFORMANCE

The performance of private enterprise, be it one firm or the collective effects of many firms on a developing country's economy, is an element of a program to foster private sector initiatives that AID should consider at the beginning of its effort, rather than waiting until it has already set in motion a series of activities. From the perspective of any development agency, the type and quality of firms, as well as their number and financial success, are important matters. In choice situations, firms that have visible development benefits may be preferable to those which do little to bring large numbers of people into the market economy in productive and rewarding ways. The purpose of this section of the paper is to examine several private sector ventures which have had visible development benefits and to consider the ways in which AID might examine the success or failure of existing private sector programs or those it develops in the future.

A. VISIBLE DEVELOPMENT BENEFITS FROM PRIVATE ENTERPRISE

The origins of successful businesses, either in financial terms or in terms of the development benefits they generate through their mode of operation, are hard to predict. In one case we will find that the person who started the business was from a rich family, in other cases this will not be true.* Sometimes the private sector ventures with highly visible development benefits will have been started with funds

* David Steinberg has pointed out in "The Economic Development of Korea: Sui Generis or Generic?", AID Evaluation Special Study No. 6, that a Harvard Study of Korean development found that the entrepreneurial class is "in the main composed of descendants of former elite groups," p. 10.

supplied by a development organization; in other cases multinational corporations will be involved. Perhaps the most useful observation is that stereotypes aren't very helpful: Success has to be looked at on a case by case basis.

Among the most interesting "success models" from AID's perspective are private sector ventures which reach backward into small communities to form supply networks that support somewhat larger businesses. In several instances this type of linkage has been established when firms provided guaranteed markets for smaller enterprises. This type of linkage has been established by firms working in manufacturing as well as in agribusiness ventures.

The story of Sears in Peru, which developed guaranteed markets for small manufacturing enterprises, was reported by the Harvard Business Review in its article on Latin American investments:

The primary reason for Sears' success in operations is its vast program to develop local industry. When the company opened its first store in 1955, 20% of the merchandise was bought locally whereas 80% was imported. Today (1973) 90% is local and 10% is imported. Sears now buys from 900 local sources. While Peruvian industry has come a long way on its own during the last 15 years, Sears is recognized as having actually helped to develop local suppliers....Robert McIntire, the company president, estimates that about 400 local companies were founded directly on the basis of Sears' guarantee of markets. It offers technical aid, advice about raw material purchases, and contract guarantees which help in obtaining financing. The company does not own stock in any local suppliers.*

* Harvard Business Review, op. cit., p. 80.

AID's Evaluation Special Study No. 4, The Social Impact of Agribusiness: A Case Study of ALCOSA in Guatemala provides an agricultural example of the guaranteed market approach and its positive effects. This project, which received part of its financing through LAAD de Centroamerica, provided guaranteed markets to vegetable farmers. The evaluation study found that the project had strong initial impacts on production and on income. This basic set of effects was found to continue over time. At the same time, the evaluation pointed out that management decisions which effect produce suppliers can reverse early positive effects, e.g., changes in buying procedures between 1977 and 1980 had resulted in net losses for some of the farmers involved in the ALCOSA scheme, though not all of the participants were affected in this manner.

Other cases are discussed in a study by Development Alternatives, Inc. The DAI study, which focused on Africa, examined three "corporate development projects" -- enterprises that had what might be called visible development benefits. One, involving Cadbury, involved farmers in a tomato production scheme along the lines of the ALCOSA project. The other two cases involved the British American Tobacco Company and Shell-BP. From the Shell case DAI took a set of "Guidelines for Project Design" that offer some important insights into the way that private sector firms view ventures of this type:

The guidelines for the design of the Uboma [Nigeria] project came from Shell's experience in other countries, in particular its rural development project at Borgo a Mozzano in Italy. Among the factors Shell had identified as important for success were:

- the project must be long-term, for a crash program over a shorter period of time will almost certainly fail to produce permanent results;

- the project area should be one that is manageable, that is, one in which all families can be reached in a few hours; in addition, Shell estimated that one field worker (playing a catalytic role) can handle 10,000-15,000 people;
- the quality of field personnel is critical; they must have backgrounds in agricultural economics, sociology and psychology and technical expertise which can be used to solve small farmer problems; the field project manager should be a host country national, though answerable to someone who can provide supervision and links with outside experts;
- an initial socioeconomic survey is essential, and should be conducted in a reasonable amount of time (ten months); a shorter period will not capture enough of the farming calendar, and a longer period may lead to frustration on the part of the community and project staff; the survey is necessary as a planning document and for evaluation purposes -- to measure overall social and economic changes in the area; and
- the project activities should be directed initially as simple problems which are easily solved; more complex problems can be tackled as the local population gains confidence.

In addition to the above, an underlying assumption of the Shell approach is that people will begin to take the initiative in identifying and solving their own problems if they are involved in the process from the outset and provided with timely technical advice.*

* Elliott R. Morss et al., Strategies for Small Farmer Development: An Empirical Study of Rural Development Projects. Washington, D.C.: Development Alternatives, Inc., 1975, Volume 2, pp. F45-46.

While in many ways the Shell project closely resembles an AID funded rural development project, it is also a profit-oriented investment. Indicative of the potential for profit in the situation is Shell's report of an estimated five-to-one return in net income generated in Uboma over the Shell-BP investment of technical assistance funds (about \$220,000). While this return may not accrue directly to Shell, such projects tend to be undertaken when firms can see a long-term financial or public relations gain which will accrue, in part, to the original sponsors.

In addition to the development of linkages between agriculture and small enterprises, employment in firms in the developing countries needs to be counted as a direct development benefit. In the Harbridge House study of 20 OPIC guarantees, the employment impact of firms as well as their impact on supplier industries was examined. In cases that range from engine production to specialized glass work, the joint ventures in developing countries were found to be significantly more labor-intensive than the parent companies in the U.S.

The degree to which firms are labor-intensive in their production processes, and the overall level of employment associated with enterprise, is a basic concern of AID-funded small enterprise projects. It is also considered to be a good indicator of development payoff from enterprise in studies that examine aggregate data on developing economies. While a variety of AID studies have pointed to the employment impact of small-enterprise programs, a recent World Bank study has called attention to the fact that when these small businesses begin to grow they generate even more employment. Associated with changes in firm size in Korea and Taiwan was a substantial increase in overall employment in manufacturing. In Korea, factory employment in manufacturing was 748,307 in 1968 and

1,420,144 in 1975. A doubling of manufacturing employment was also found in Taiwan, which employed 566,213 people in manufacturing in 1966 and 1,170,179 in 1971.* This is not to say that every small business will, or even should, become larger for the sake of employment generation -- but it does say that business growth in general will tend to yield development benefits via the income that comes with the presence of more jobs.

While AID may not be in a position to directly influence the degree to which firms develop local sources of supplies or the number of jobs they generate, there are several ways in which actions AID takes can influence these aspects of private enterprise development. The first area where AID may be able to influence the way in which private enterprise develops is the policy area. As cases discussed in this paper have suggested, some policies will tend to provide market incentives for business to use local resources and to prefer labor-intensive approaches where labor is available and the wage rates are not pegged above a level where labor is cheaper than machines. A second area where AID can exert an influence is in its role as a supplier of examples and models: the simple task of collecting and sharing examples of developmentally beneficial enterprises with local financial institutions, entrepreneurs, the U.S. embassy and others who are in contact with U.S. business, etc., can be an important focus in Mission "brokering" efforts.

* Sam P. S. Ho, Small-Scale Enterprises in Korea and Taiwan, World Bank Staff Working Paper No. 384, Washington, The World Bank, 1980, p. 28.

B. ASSESSING THE IMPACT OF PRIVATE ENTERPRISE PROGRAMS

In the course of planning approaches for fostering private enterprise development, and later when it comes time to evaluate programs begun over the next few years, AID will need to consider the objectives of such programs and ways of measuring their effectiveness. "Tools" that can assist Missions in this task are needed for examining two levels of results: the impact of many private enterprises on the economy as a whole and the impact of a single firm on its more immediate environment.

1. The Impact of Many Firms

The central objective of policies and programs for fostering private sector initiatives is economic development. In his 1966 study of aid to Taiwan, Jacoby selected gross national product as his primary measure of the economic development produced by private sector oriented programs in Taiwan:

Growth of the gross national product (GNP) over a considerable period of time was taken as the basic measure of Taiwan's economic development. This measure meant that a number of possible alternative criteria, such as increase in employment, rise of per capita income, or changes in distribution of wealth, were rejected. Long-run growth of output was considered to be the most fundamental measure of economic development, because, in a market economy, employment and per capita income are dependent upon, and normally correlate well with, output.*

One of the hallmarks of development assistance in the latter half of the 1970s was a lack of confidence in earlier

* Jacoby, op. cit. p. 18.

approaches to development that rely heavily on growth as the basic element of a development strategy. Growth alone, it has been thought, does not reduce the incidence of poverty in the developing countries. The notion that growth and poverty are unrelated, or inversely related, stemmed in part from analyses of aggregate data undertaken early in the decade which appeared to demonstrate that rapid growth was not reducing the overall numbers of poor in the world. That finding, which was taken as an indicator of the inadequacy of development approaches which suggested that the benefits of growth would "trickle down" to the poor, set off a chain of responses in donor organizations and in some of the developing countries. In many cases, the response to this finding -- which was bolstered by examples of countries where the benefits of growth were not reaching the poor -- took the form of a shift in donor funding for development programs toward direct approaches for meeting the "basic needs" of the poor. The private sector, with the exception of agriculture and small scale rural enterprise, tended not to be a main component of these new programs.

While donor assistance moved away from a concern with industrialization as the primary route to development, and toward local programs that had a strong public sector character, research concerning the relationship between growth and poverty continued. By 1981 this research had produced evidence, on a disaggregated basis, which called into question the conclusions reached several years before based largely on aggregate data. What had been examined more closely in the interim were the major differences between countries with respect to their growth rates and income levels and the degree to which large numbers of poor people tended to be clustered in low income countries with low growth rates.

While earlier research, using average growth rates and overall statistics on the number of poor in the world, had concluded that poverty was increasing even as economies grew, AID's reanalysis of the data, on a disaggregate basis, showed that average growth was not an accurate indicator of what was occurring. In middle income countries, like Taiwan and Korea, the growth rates were high, and the incidence of poverty relatively low. At the same time there was virtually no growth in the very poorest countries -- the ones with large and growing populations of poor people:

...data on growth rates of per capita income for LDCs grouped by income level, in conjunction with the estimates of the distribution of LDC poverty presented earlier, suggest that arguments about the failure of rapid growth to alleviate poverty need to be carefully worded....[I]n the group of countries where most of the world's poor subsist -- the low income countries -- growth has on average been very slow. Hence the persistence of poverty cannot readily be attributed to the failure of "trickle-down" mechanisms. Less than 1 percent average annual growth at a per capita income level of \$170 could hardly produce a discernible trickle in any direction.

In contrast, middle-income countries, where both the incidence and number of poor are relatively low, have been growing rapidly. If anything, these data point to the success rather than failure of rapid growth in alleviating poverty. Expressed somewhat differently, rapid growth appears to have failed mainly in the sense that rapid growth in Korea or Taiwan has not had much effect on poverty in Bangladesh or Ethiopia.*

*Michael Crosswell, "Growth, Poverty Alleviation and Foreign Assistance," AID Discussion Paper No. 39, August 1981, p. 19. (Emphasis added.)

If the relationship between growth and poverty reduction is strongly positive where markets are open and competitive, rather than non-existent or negative, then the appropriate measures of success may be closer to what they were viewed as being in the 1960s than what has been imagined in the interim. This is not to say that performance in terms of "basic needs" can be ignored -- quite the contrary. What the additional evidence is now suggesting is that growth must occur, and be observable, if "basic needs" are to be met in ways that can be documented. The line of reasoning is essentially the one AID presented in its 1978 Discussion Paper on "Basic Human Needs":

Estimates of the proportion of the developing world's population that cannot meet basic needs range as high as 84 percent. The corresponding figure for many of the lower-income countries would, of course, be even higher. Accordingly, any effort to raise living standards of the poor in such countries would necessarily entail policies and programs that would have broadly positive impacts on incomes and overall GNP.*

While at one level it appears that we have come full circle, it is also clear that there are valid reasons for supplementing basic measures such as GNP growth with other measures of the economic impact of private sector initiatives, ranging from income distribution effects to the degree to which enterprise strategies are themselves labor-intensive and

* Michael Crosswell, "Basic Human Needs," AID Discussion Paper No. 39, October 1978, p. 5. (Emphasis added.) This earlier paper went on to argue that certain types of growth strategies -- basically those associated with open and competitive markets -- could have positive distributional effects, e.g., labor-intensive production in countries where labor was readily available would generate employment and income needed to meet basic needs.

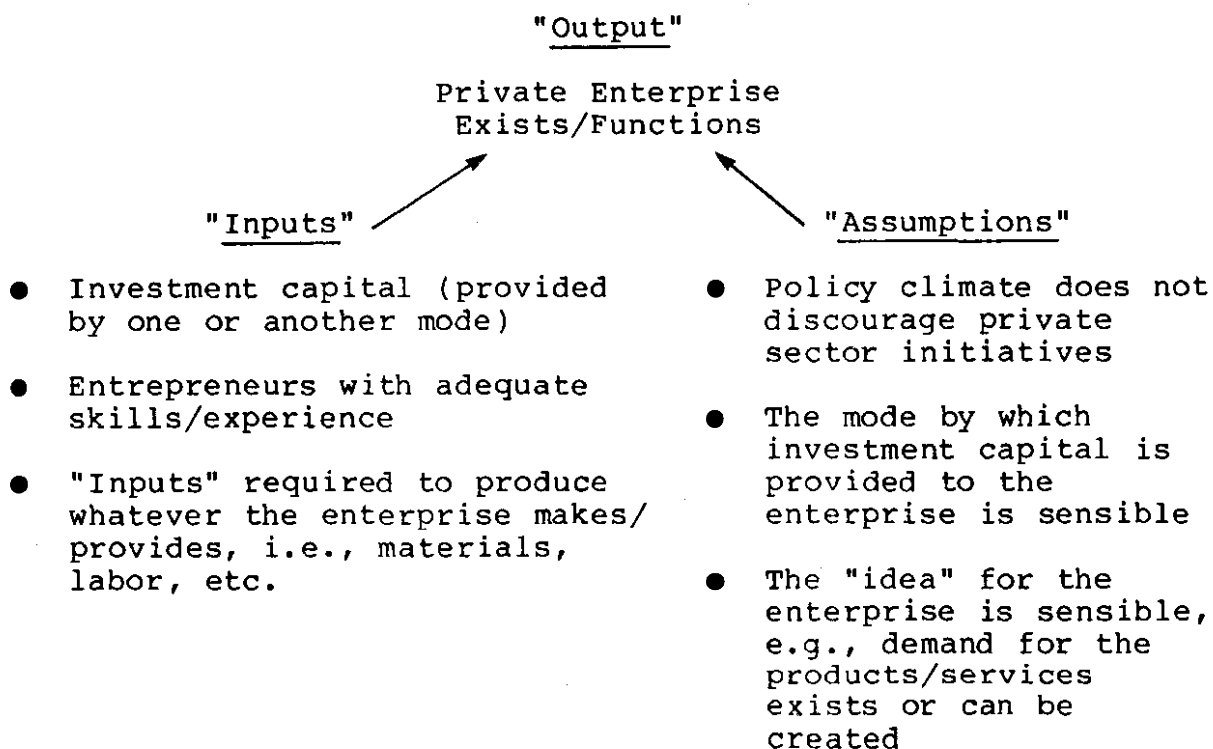
involved in programs that develop local suppliers, as Sears and ALCOSA did.

The widely varied experiences in the developing countries, cited altogether too briefly in this paper, also suggest that Missions need to keep a careful eye on the ways in which policy changes which might appear to affect only one aspect of the economy actually function -- stories about exchange rate changes that were more apparent than real and yogurt machines bought in response to one policy and idled by another need to stay in our minds and remind us to examine such changes in detail.

2. The Impact of A Single Firm

Private enterprise promotion programs and projects, like other types of programs and projects, make sense only in terms of the results they are expected to produce. As in other programs and projects, our notions about results must be treated as a set of testable hypotheses. By articulating the hypotheses, we gain a picture of the ways in which effectiveness and impact can be assessed.

In the initial stages of program development and implementation, we often think only in terms of whether AID's activities are making a difference, i.e., did we actually provide credit to a firm, build a road, etc. These concerns deal with the "Input" and "Output" aspects of programs, to use the terminology of AID's Logical Framework approach for design and evaluation. The diagram below suggests the first level of results we are seeking from private enterprise programs; namely, that such enterprises exist and function. When our projects and programs are concerned with providing support to a number of enterprises, we may, at the "Output" level be interested in the rate at which firms enter the market and survive.



While the first level result of private enterprise development programs will deal with their existence, a concern with impact forces us to ask why enterprises should exist, i.e., to define the "Purpose" and "Goal" of projects and programs, to use Logical Framework terms. At these levels, we can begin to focus on the output of firms and the ways in which one firm uses the products of another while at the same time acting as a supplier itself. Questions about the ways in which firm earnings are used to increase enterprise production or for consumption purposes can also be asked. In looking at the impact of a firm -- what happens because it exists and functions -- we need both a static and a dynamic view.

a. The Static Picture

In the static picture we are concerned about what a firm is producing, its relationships with other enterprises and the

way in which its profits are being used. Figure 3 shows this static case and allows us to formulate some of the questions that might help us to assess the impact of the enterprise.

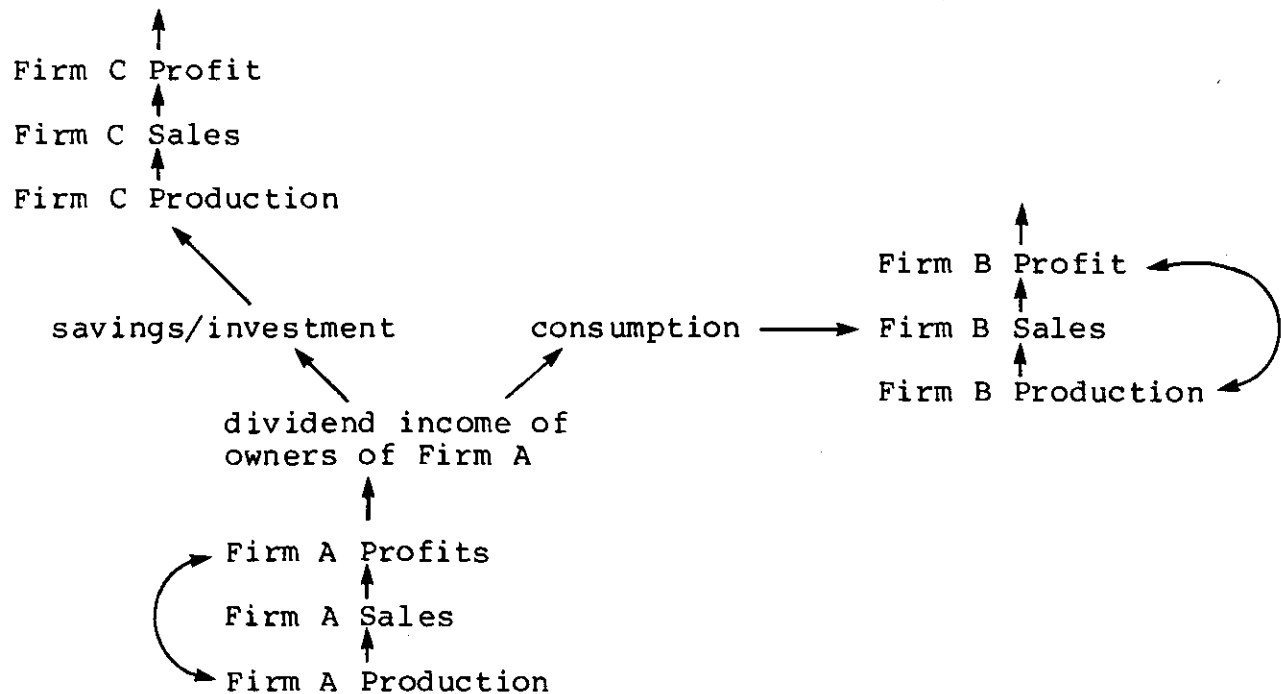


Figure 3. Hypotheses Concerning Results Stimulated by the Existence/Operation of Firm A

As the diagram suggests, any time Firm A sells enough of what it produces to generate a profit, we ought to be interested in where the profit is going. Profit dollars can only go in one of two directions, and each of these has an effect:

- They can go back into the business to increase or upgrade production, improve the marketing-sales link, upgrade staff skills, etc. -- anything inside the firm that will make it (hypothetically) more profitable in the future;
- They can go to owners, through dividends, and then into either consumption or savings/investment. When the profits leave the firm, they must go somewhere.

If they go into a bank or into another investment, they have an effect on Firm C. If they are spent on consumption they (hypothetically) have an effect on Firm B.

The key point here -- and the main reason for being interested in the fate of profits -- is that just about any direction profits move they kick us into the dynamic picture, i.e.:

- When profits are reinvested in Firm A, we should (hypothetically) see an increase in production in Firm A that kicks sales and raises profits again, stimulating "round 3" in the growth game;
- When profits go to owners and are saved/invested, they kick off increased production in Firm C -- which has the same effect it would have had on Firm A if they had been reinvested there;
- When profits go to owners and are spent on consumption items the payoff shows up in the sales of Firm B -- which will (hypothetically) drive Firm B to take actions to increase its production to meet increased demand for its products. As soon as Firm B takes those actions the chain not only starts to operate in that firm, but also in all of the firms that supply Firm B.

b. The Dynamic Picture

By following the profit line out from firms, we can, with multi-year data, begin to understand "changes" in production, sales and profits. These "changes" are the effects which begin to be very interesting if one envisions a single firm as having potential effects on other firms and on the economy as a whole. As soon as it is possible to examine multi-year data, one can begin to look for the types of effects that for example, the Sears approach to developing local suppliers had in Peru. When you see increases in the production, sales or profits of Firm A, you can begin to look backward to Firm A's

suppliers to assess the cumulative effects of Firm A's growth on these enterprises. If Firm A is growing over time, its suppliers almost have to be growing too. If they aren't growing they are probably multiplying -- which would have the same overall effect, or perhaps an even more desirable one. Similarly, for Firm A to grow, something has to be occurring with those individuals and enterprises which buy from Firm A. In addition, the effects over time of profits reinvested in firms or set loose on the economy for other forms of investment or consumption can be expected to affect the general economic situation and, therefore, deserve attention.

Moving slightly away from a concern with the effects of firms through production, sales and the use of profits, it is possible to look at the same situations from an employment and equity perspective. Again both a static and a dynamic view should be considered.

c. Initial Impacts on Workers

The obvious impact of a new business, or an expanded one, from the perspective of an individual worker is a job and the resulting income. While the employment effects of most activities in developing countries tend to be examined carefully, assessments that examine worker effects do not normally ask what the worker does with his income -- at least not in terms of the way worker income contributes to private sector growth. As Figure 4 suggests, the worker's paycheck, like the stockholder's profit, operates to further expand enterprise.

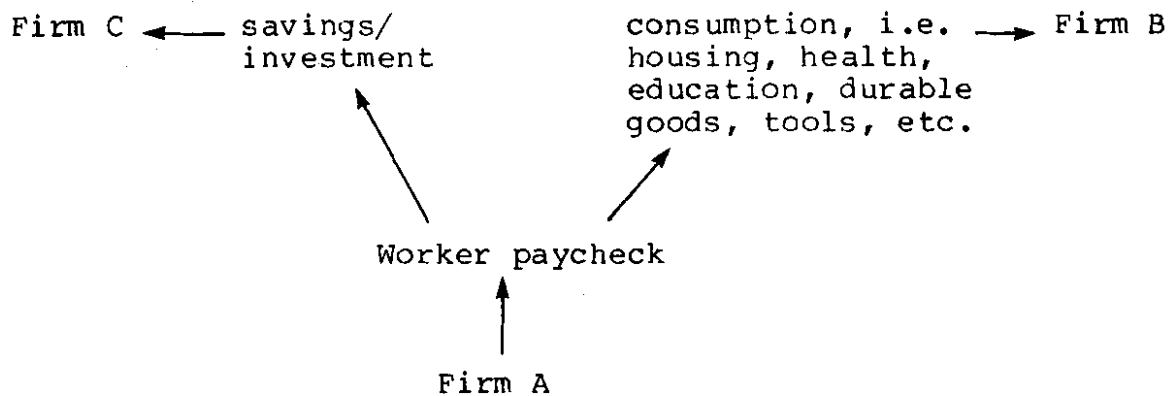


Figure 4. Flow of effects as worker welfare improves when jobs provide income

What the figure suggests is that the worker's paycheck flows to Firms B and C in the same way as the distributed profits of Firm A. Once that occurs, the effects hypothesized in terms of firms apply. Worker savings as well as worker consumption affect the production and sales of firms just as other flows of resources do.

d. Dynamic or "Second Round" Worker Impacts

A second round of worker impacts begins whenever firms take actions to increase their production and sales (except in those instances where all of the changes take the form of technological/equipment changes). In production and sales processes that involve workers, these changes will lead to new jobs, i.e., when a firm that is producing "x" items with a staff of "y" workers wants to produce "x + 100" items, it will generally need to increase staff size.

As new jobs are created, more workers earn salaries which they will spend or save. As in the static picture, these savings and consumption choices operate to stimulate further production and investment by firms. And the circular nature of

increases in production leading to more jobs and eventually more spending and investment continues as long as growth is an element of the cycle. Reverse, of course, can occur and in many ways they invert the processes described here.

Those interested in pursuing the measurement of impacts at the level of a firm would do well to examine a May 1981 publication prepared for AID's Office of Urban Development which deals specifically with the ways in which components of impact in private enterprise programs can be assessed.*

* Susan Goldmark and Jay Rosengard, "Evaluating Small-Scale Enterprise Promotion: State-of-the-Art: Methodologies and Future Alternatives," Washington, D.C.: Development Alternatives, Inc., 1981.

EXHIBITS

This section presents a guide to the resources the Office of Evaluation is currently using to access information on past experience with private sector initiatives. It includes the bibliography developed to date as well as listings of Agency and OPIC projects which may warrant further examination.

A. Bibliography

Previous Page Blank
This section provides lists of publications and is where they are to be found as well as the main points they make. It also identifies areas where telephone research has been used to track down information and follow-up on material already located.

B. Project Experience

Exhibit 1, which was noted in the preceding section, provides a list of 20 OPIC projects examined in a 1972 evaluation. Exhibit 3 lists and codes 145 projects identified using AID's ST/DIU data base*. The codes assigned to projects indicate whether they were primarily focused on industrial development, training or other types of assistance. A key to the code precedes the listing. Table 2, on the following page, shows the frequency with which each code was assigned to projects.

*AID's ST/DIU data base contains information on projects that were active on or after October 1974.

This list is not intended to be a complete bibliography on private sector development. It is merely to give some indication of the types of materials available for the further research of this subject. It is divided into three sections: the first is a list of general works on the subject; the second is a list of publications and periodicals; and the third is a list of other sources of information, such as agency papers, memoranda, papers and works from various outside agencies and groups.

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AID PROJECTS (FROM ST/DIU SYSTEM)

On the following pages, the 145 AID projects are broken down into categories via the following codes:

<u>CODE</u>	<u>PROJECT TYPE</u>
*	Private Sector
O	Small Enterprise
D	General Development
T	Technical Assistance
F	Feasibility Studies
C	Credit Unions
IRD	Integrated Rural Development
#	Small Farmers
H	Housing
M	Management Training
CD	Community Development
Y	Labor Unions
Δ	Cooperatives
x	Tourism Development
→	Inputs leading to...

While 90 of these projects will be identified with a single code, the remaining 55 (or 38 percent) will be identified with a multiple code, signifying a mixture of project types.

The year given after the country (YR*) is the initial fiscal year of obligation. "EVAL?" determines if there are any evaluation documents for that project, Y = Yes, N = No.

Distribution of Projects by Focus

TOTAL NUMBER OF PROJECTS: 145
 NUMBER GIVEN SINGLE CODES: 90 (62%)
 NUMBER GIVEN MIXED CODES: 55 (38%)

DISTRIBUTION OF PROJECTS WITH ONE CODE			
Code	Focus	Frequency	Percentage
*	Private Sector	18	20%
O	Small Enterprise	18	20%
D	General Development	15	17%
T	Technical Assistance	11	12%
F	Feasibility Studies	7	8%
C	Credit Unions	5	6%
IRD	Integrated Rural Development	4	4%
#	Small Farmers	4	4%
H	Housing	3	3%
M	Management Training	2	2%
CD	Community Development	2	2%
Y	Labor Unions	1	1%

It should be noted that in a further examination of these projects, codes might be reassigned, or there might be some consolidation of these preliminary focus categories.

	CODE	PROJECT #	EVAL?	COUNTRY(YR*)	PROJECT TITLE
1.	M	2630090	Y	Egypt (80)	Management Training
2.	T#	2630096	N	Egypt (79)	Sm. Scale Agricultural Activities
3.	*	2630097	N	Egypt (79)	Private Sector Credit--Larger Firms
4.	F	2630112	N	Egypt (79)	Feasibility Studies (like TDP)
5.	*	2770442	N	Turkey (68)	Industrial Development Bank
6.	F	2780127	Y	Jordan (66)	Feasibility Studies (like TDP)
7.	F,T	2790023	N	Yemen Arab Reb. (73)	Pre-development Studies
8.	*	3060116	Y	Afghanistan (70)	Industrial Development
9.	*	4390074	Y	Laos (67)	Industry Development
10.	T	4890587	Y	Korea (64)	Economic Planning
11.	T,M	4890606	N	Korea (64)	Industrial Development
12.	*	4890677	Y	Korea (71)	Private Enterprise Development
13.	T,D	4920236	Y	Philippines (69)	Provincial Development
14.	T	4920303	Y	Philippines (78)	BICOL Integrated Rural Development
15.	*	4930161	Y	Thailand (65)	Private Sector Development
16.	D#	4930248	N	Thailand (73)	Hill Tribe Research Food
17.	D	4930306	Y	Thailand (79)	Rural Off-farm Employment Assessment
18.	T,M	4970226	N	Indonesia (78)	S & T
19.	#	5110452	Y	Bolivia (76)	Small Farmer Organizations
20.	T,#,O	5110472	Y	Bolivia (78)	Rural Enterprises & Agribusiness
21.	O,M	5120287	N	Brazil (?)	Assistance to Small & Med. Industries
22.	#	5130277	Y	Chile (75)	Agriculture Coop Development Fund
23.	O	5130282	Y	Chile (76)	Small Scale Regional Development
24.	T,F	5130287	Y	Chile (76)	Small Scale Regional Development
25.	Y	5140015	N	Colombia (54)	Labor Affairs
26.	O	5140181	Y	Colombia (75)	Small Industry Development Credit
27.	T	5140226	N	Colombia (79)	Agricultural Training Program OPG-PVO
28.	H	5150130	Y	Costa Rica (78)	Urban Employment & Community Improvement
29.	*	5170102	Y	Dominican Rep (70)	Private Investment Fund
30.	*	5170106	Y	Dominican Rep (73)	Private Development Finance Company II
31.	M	5170122	Y	Dominican Rep (77)	Training Rural Management

	CODE	PROJECT #	EVAL?	COUNTRY(YR*)	PROJECT TITLE
32.	*	5180024	Y	Ecuador (67)	Industrial Development
33.	O	5180092(03)	Y	Ecuador (68)	Civic Development--Urban Development
34.	C	5180096(02)	Y	Ecuador (68)	Institutional Development
35.	O	5180098	Y	Ecuador (71)	Ecuador-Small Enterprise Loan
36.	#	5180102	Y	Ecuador (70)	La Ecuatoriana de Desarrollo
37.	C	5190094(01)	Y	El Salvador (67)	Credit Union Development (FEDECACES)
38.	#,O	5190197	Y	El Salvador (78)	Small Enterprise Development PVO-OPG
39.	O,T	5190216	N	El Salvador (79)	Central Marketing Coop (PVO-OPG)
40.	T	5190223	Y	El Salvador (79)	League of Women Voters-OPG
41.	T	5190229	N	El Salvador (80)	Small Enterprises Development
42.	D	5190251(01)	N	El Salvador (80)	Marginal Community Improvement
43.	D	5190251(02)	N	El Salvador (80)	Marginal Community Improvement
44.	F	5200000(01)	N	Guatemala (56)	Agriculture Technical Support (Eval Plan)
45.	*	5200173	N	Guatemala (68)	Finance Private Industry & Agr. Dev. Bank
46.	D→*	5200187	Y	Guatemala (67)	Rural Community Leadership & Modernization
47.	*	5200201	Y	Guatemala (71)	Export Development
48.	*	5200216	Y	Guatemala (73)	Industrial/Agriculture/Services Sector
49.	#,Δ	5200226	Y	Guatemala (74)	Rural Credit & Coop Development
50.	T→O	5200245	N	Guatemala (79)	Rural Enterprise Development
51.	T	5210118	Y	Haiti (79)	Haitian Development Foundation PVO-OPG
52.	T,*	5220053	N	Honduras (65)	Private Enterprise Development
53.	M,Δ	5220105	Y	Honduras (75)	Agriculture Coops
54.	O	5220127	N	Honduras (76)	Expanding Income Employment
55.	T	5220157	N	Honduras (79)	Rural Technologies
56.	T,Δ	5220179	N	Honduras (80)	Honduran Federal Industrial Coops PVO-OPG
57.	CD,*	5240047	Y	Nicaragua (68)	Community Development
58.	*	5240065	N	Nicaragua (67)	Private Development Bank II
59.	*	5240069	Y	Nicaragua (68)	Private Investor Bank
60.	IRD	5240118	Y	Nicaragua (76)	Nicaragua-Rural Dev. Sector Loan
61.	IRD	5240138	N	Nicaragua (78)	Rural Development Sector Loan II
62.	D	5240140	Y	Nicaragua (76)	Managua Urban Reconstruction

	CODE	PROJECT #	EVAL?	COUNTRY(YR*)	PROJECT TITLE
63.	C,O	5240141	N	Nicaragua (77)	Rural Small Merchant Credit Unions
64.	C,O,#	5240156	Y	Nicaragua (78)	FUNDE Diversification OPG-PVO
65.	D	5240188(01)	N	Nicaragua (80)	Nicaraguan Recovery Program-Overview
66.	*	5240188(02)	N	Nicaragua (80)	Nicaraguan Recovery Program
67.	O	5240198	N	Nicaragua (80)	Small Enterprise Development PVO-OPG
68.	*	5250069	N	Panama (64)	Private Enterprise Development
69.	C	5250153	Y	Panama (72)	Panama Credit Union Operations
70.	IRD,O	5250185	N	Panama (78)	Rural Growth & Service Centers
71.	IRD,O	5250200	N	Panama (79)	Guayml Area Development
72.	#	5260107	Y	Paraguay (76)	Paraguay-Rural Enterprises
73.	*	5260802	Y	Paraguay (71)	Private Development Bank
74.	CD	5270118(02)	Y	Peru (63)	Community Development and Reconstruction
75.	CD	5270134	N	Peru (72)	Community Development and Reconstruction
76.	C	5270139	Y	Peru (68)	Private Investment Fund
77.	O	5270140	N	Peru (73)	Reconstruction & Development Sm. Business
78.	O	5270141	Y	Peru (75)	Agricultural Economics
79.	O,T	5270176	Y	Peru (79)	Rural Enterprises II
80.	#,O	5380010	N	Other W. Indies- (77) Eastern Carib. Reg	Regional Agri-business Development
81.	*	5380011	N	Other W. Indies- (76) Eastern Carib. Reg	LAAD, Regional Agri-business Development
82.	T	5380013	N	Other W. Indies - (78) Eastern Carib. Reg	Employment/Investment Promotion
83.	C,O	5380018	N	Other W. Indies- (79) Eastern Carib. Reg	Employment/Investment Promotion II
84.	D	5380023	N	Other W. Indies- (78) Eastern Carib. Reg	Caribbean Development Facility
85.	T,M,F	5380025	N	Other W. Indies- (79) Eastern Carib. Reg	Caribbean Productive Employment Generation
86.	T,D,*	5380042	N	Other W. Indies- (81) Eastern Carib. Reg	Project Development Assistance
87.	⇒*	5380043	N	Other W. Indies- (81) Eastern Carib. Reg	Private Sector Investment Assistance

CODE	PROJECT #	EVAL?	COUNTRY(YR*)	PROJECT TITLE	
88.	T,*	5380057	N	Other W. Indies- (80) Eastern Carib. Reg	Agri-business Expansion
89.	T,*	5960039	Y	ROCAP (72)	Latin America Agri-business Development
90.	x→*	5960045(01)	Y	ROCAP (73)	Tourism Infrastructure-Guatemala
91.	x→*	5960045(02)	Y	RACAP (73)	Tourism Infrastructure-El Salvador
92.	x→*	5960045(03)	Y	ROCAP (73)	Tourism Infrastructure-Honduras
93.	x→*	5960045(04)	Y	ROCAP (73)	Tourism Infrastructure-Nicaragua
94.	x→*	5960045(05)	Y	ROCAP (73)	Tourism Infrastructure-Costa Rica
95.	F→x→*	5960045(06)	Y	ROCAP (73)	Tourism Infrastructure-Feasibility Studies
96.	T	5960060	N	ROCAP (76)	Transfer of Technology
97.	O	5960068	Y	ROCAP (76)	ROCAP-LAAD Agri-business Development
98.	O,T	6960069	Y	ROCAP (78)	Regional Rural Agri-business Development
99.	F,T→*	5960100(03)	Y	ROCAP (68)	Human Resources Development
100.	*→D	5980436	Y	LA Regional (65)	Partners of the Americas
101.	D	5980577	N	LA Regional (78)	Private Voluntary Agency OPG
102.	T	6030003(02)	N	Djibouti (79)	Fisheries Development
103.	C,T	6120205	N	Malawi (80)	Malawi Union Savings & Coop Development OPG
104.	D,T,M	6150174	Y	Kenya (77)	Rural Enterprise Extension Service
105.	D,O	6150184	Y	Kenya (78)	Increase Employment-Income-Production OPG
106.	T,O	6200714	Y	Nigeria (?)	Indigenous Industrial Development
107.	C	6210085	N	Tanzania (68)	Rural Credit Union Development
108.	T,M→O	6210143(03)	N	Tanzania (78)	Arusha Planning and Village Development
109.	O	6250715	Y	Cent & W. Afr. (73) Regional	Entente States: African Enterprises
110.	IRD Pilot	6310010	N	Cameroon (77)	N. Cameroon Pilot Community Development (OPG)
111.	O	6320209	Y	Lesotho (78)	Cottage Mohair Industry (OPG-PVO)
112.	D	6330077(02)	N	Botswana (80)	Rural Development
113.	D	6330077(03)	N	Botswana (78)	Rural Development
114.	O	6330212	Y	Botswana (78)	Rural Enterprise Extension Service
115.	O	6410072	Y	Ghana (77)	Farmer Association & Agri-business
116.	D	6500038	N	Sudan (80)	Commodity Import Program

	CODE	PROJECT #	EVAL?	COUNTRY(YR*)	PROJECT TITLE
117.	D	6630214	N	Ethiopia (78)	Micro Regional Rural Development (PVO)
118.	T,M	6640205	N	Tunisia (70)	Agricultural Production
119.	F → IRD	6640285	Y	Tunisia (76)	Rural Development
120.	D,*	6690154	N	Liberia (77)	Nimba Valley Entrepreneurial Dev. (PVO/O)
121.	T → O	6690163	N	Liberia (80)	Nimba County Rural Technology OPG
122.	H	6690167	Y	Liberia (79)	Low Income Housing Phase II
123.	D(WID)	6860211	N	Upper Volta (77)	Women's Roles In Development
124.	T → O	6860219	Y	Upper Volta (78)	Rural Enterprise Development
125.	D(WID)	6880225	N	Mali (80)	Training Center for Rural Women
126.	H	6938001	N	Togo (?)	Low Income Shelter
127.	D,*	6980001	N	Afr. Reg. (?)	East Africa Development Corporation
128.	D,*	6980002	N	Afr. Reg. (67)	Development Cooperation W. Africa
129.	D	6980388(02)	Y	Afr. Reg. (76)	WID-GARA Cloth Industry-Sierra Leone
130.	F	9310139	Y	Technical Asst. (72)	Rural Development
131.	D	9310149	Y	Technical Asst. (73)	Employment through Sm. Industry Stimulation
132.	F	9311090(01)	N	Technical Asst. (78)	Sm. Enterprise Approaches to Employment
133.	F	9311090(02)	N	Technical Asst. (78)	Sm. Enterprise Approaches to Employment
134.	F	9311090(03)	N	Technical Asst. (78)	Sm. Enterprise Approaches to Employment
135.	O	9311121	N	Technical Asst. (79)	Commercial Seed Industry Promotion
136.	T,M → *O	9320001	Y	Pop. & Humanitarian Asst (64)	Executive Service Corps
137.	O	9320029	Y	Pop. & Humanitarian Asst (72)	Technoserve Sm. Enterprise Asst.
138.	O	9320034	Y	Pop. & Humanitarian Asst (73)	Instit. for Int'l Dev., Inc.--IIDI (AAG)
139.	IRD	9320090	N	Pop. & Humanitarian Asst (77)	Institutional Dev. & Econ. Affairs Service
140.	T	9320103	N	Pop. & Humanitarian Asst (77)	International Educational Development
141.	T → O	9380131	N	Private & Dev. Cooperation (79)	Instit. for Int'l Dev., Inc.-IIDI
142.	O	9380141	N	Private & Dev. Cooperation (79)	Partnership for Productivity (PVO)

	CODE	PROJECT #	EVAL?	COUNTRY(YR*)	PROJECT TITLE
143.	0	9380145	Y	Private & Dev. Cooperation (79)	Technoserve, Inc. Matching Grant (PVO)
144.	T,0	9380146	N	Private & Dev. Cooperation (79)	Accion Internacional (AITEC) Matching Grant
145.	T→D	9380147	N	Private & Dev. Cooperation (81)	SAWSO Matching Grant

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Colombia

- Cabot Corporation, Cabot Colombiana, S.A. (Carbon Black Plant)
- Celenese Corporation, Celenese Colombiana, S.A. (Man Made Fibers)
- Container Corporation of America, Carton de Colombia, S.A. (Packaging Materials)
- General Electric Company, General Electric de Colombia, S.A. (GE Capital Equipment)
- W.R. Grace/International Paper Co., Productura De Papeles, S.A. (Paper Manufacturer)

India

- Corning Glass Works, Borosil Glass Works, Ltd. (Scientific Glass)
- Cummins Engine Company, Kirloskar Cummins, Ltd. (Diesel Engines)
- General Electric Company, Elpro International, Ltd. (GE Electrical Equipment)
- Goodyear Tire & Rubber Co., Goodyear India, Ltd. (Tires & Rubber Products)
- Mansfield Tire & Rubber Co., Madras Rubber Factory, Ltd. (Tires & Tread Rubber)
- Phillips Petroleum Co., Phillips Carbon Black, Ltd. (Carbon Black)

Thailand

- Firestone Tire & Rubber Co., Firestone Tyre & Rubber Co. Thailand, Ltd. (Tires)
- Intercontinental Hotels Company, Siam Intercontinental Hotel (Hotel)
- Kaiser Cement & Gypsum Corp., Jalapraphan Cement Co., Ltd. (Cement)
- Phelps Dodge Corp., Phelps Dodge Thailand, Ltd. (Electric & Telephone Wire & Cable)

Venezuela

- Berol Corporation, Epenco de Venezuela, S.A. (Pencils)
- Ford Motor Company, Ford Motor de Venezuela, S.A. (Vehicle Assembly)
- Gates Rubber Company, Gates Venezuela, S.A. (Automotive & Industrial Rubber)
- Johns-Manville Corp., Manufacturas Mutiples, S.A. (Brake Linings)
- Owens-Illinois, Manufacturera de Vidrois, S.A. (Glass)

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